Austria	Sch24	Indonesia	Rp3100	Pakistan	Rs35
Bahrain	Din0.700	Iran	Rls210	Philippines	Peso40
Belgium	BFr65	Israel	Shk3.50	Poland	Zl 9,000
Cyprus	C£0.90	Italy	L2000	Portugal	Es165
Denmark	DKr12.00	Jordan	JD1	Qatar	QR9.50
Egypt	E£3.25	Kuwait	Fils.500	S.Arabia	SR7.00
Finland	FM8.50	Lebanon	L£400.00	Singapore	S$4.10
France	FFr7.50	Lux	LFr55	Spain	Pta165
Germany	DM2.50	Malaysia	M$4.25	Sweden	SKr12
Greece	Dr150	Morocco	MDh8.00	Switz	SFr2.50
Hong Kong	HK$12	Neth	Fl 3.25	Thailand	Bht50
Hungary	Fl 167	Nigeria	Naira10	Tunisia	Din0.800
Iceland	IKr150	Norway	NKr12.00	Turkey	L2000
India	Rs15	Oman	OR1	UAE	Dh7.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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Monday September 24 1990 D 8523A

NUCLEAR POWER
Safety fears check an industry's growth
Page 31

World News

Agreement on repatriation of Vietnam refugees

Britain, Vietnam and Hong Kong have reached an agreement which would allow the repatriation of Vietnamese refugees camped in the colony who have not volunteered to return home. The countries have agreed to repatriate boat people who do not volunteer to return but are not opposed to going back. Page 24

De Klerk in US

President F.W. de Klerk arrived in the US, the first visit by a South African head of state for 43 years. The trip represents a big step forward in the country's gradual political rehabilitation. Page 8

Israelis vent anger

Palestinians travelling to work were attacked by angry Israelis, and right-wing politicians called for retribution, on the first working day since the stoning and burning to death of an Israeli soldier in the Gaza Strip. Page 8

Japan - N Korea ties

Japan's ruling Liberal Democratic Party was due today to send a mission to North Korea, a move which could lead to a thaw in their ice-cold relations. Page 8

Greek strike move

Greece's Conservative government looks determined to stop a two-week wave of strikes, which has caused random six-hour power cuts and left tonnes of uncollected rubbish in city streets.

Bhutto faces trial

A special court in Lahore ordered Pakistan's ousted Prime Minister Benazir Bhutto to stand trial on corruption charges. Conviction could mean her being barred from political activity for up to seven years.

Nuclear moratorium

Swiss ecologists and anti-nuclear groups succeeded in winning over 54 per cent of the vote for a 10-year moratorium on building more nuclear power plants, despite opposition from the Government and the power industry. Page 4

Liberians hold fire

Liberian rebel factions and former government soldiers respected a ceasefire yesterday, 24 hours after the fragile truce was declared, military and other sources said. "The ceasefire is holding," a senior officer with the ECOMOG West African peacekeeping force said.

Singh challenged

Indian Prime Minister Vishwanath Pratap Singh faces a challenge this week from the Lal Kishan Advani, leader of the Bharatiya Janata Party which is vital to Mr Singh's government coalition.

French legal move

French legal authorities have started proceedings against a number of farmers suspected of attacking lorries carrying live imported sheep and cattle. Page 6

Hope for peace talks

Leaders of three Cambodian guerrilla groups accepted fellow rebel leader Prince Norodom Sihanouk's offer of more seats on a proposed national council. The compromise means peace talks to end 11 years' war could soon resume.

ETA arrest

French police arrested a suspected top guerrilla leader of the Basque separatist movement ETA in an operation planned by French and Spanish security forces. Page 6

Fires sweep Riviera

Some 2,500 people were evacuated from their French Riviera homes as firemen and troops struggled against a fire which has already destroyed some 28,400 acres of woodland.

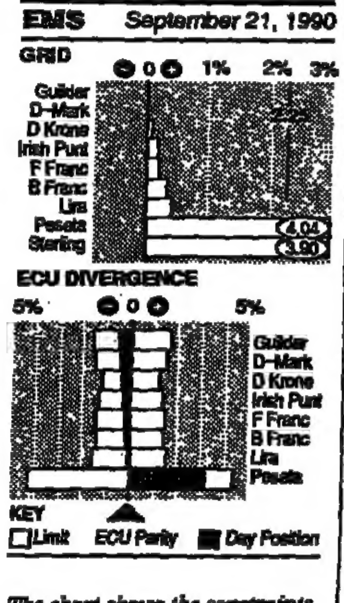
Business Summary

Congress attacks Fed decision on J. P. Morgan

The US Federal Reserve's far-reaching decision to allow J. P. Morgan, New York commercial bank, to underwrite corporate equities has been attacked by congressional leaders as an attempt to circumvent and pre-empt the legislature's review of possible banking reforms.

It comes at a time of increasing alarm in Washington about the financial problems of many banks and about the severe strain on the Federal fund which insures bank deposits as both the Bush Administration and Congress consider banking reforms. Page 25

EUROPEAN monetary system: The Spanish peseta maintained its position as the strongest currency within the EMS last week as Spain's high interest rates continued to attract investor interest. But the Italian lira was less stable, dipping to the bottom of the grid before recovering as short-term Italian rates firmed.



The chart shows the constraints on EMS exchange rates. The upper grid, based on the system's weakest currency, defines the cross-rates from which only the peseta may move by more than 2¼ per cent. The lower chart gives currencies' divergence from the central rate against the European Currency Unit (Ecu), itself derived from a basket of currencies. Currencies, Page 41

POLLY Peck International's board last night formally asked the UK Department of Trade and Industry to investigate its affairs in an effort to fight back against the criticism levelled at the fruit trading and consumer electronics group in recent weeks. Page 24

COMPAGNIE Générale des Eaux, French industrial group, established a new company, Energy and Technical Services Group, to spearhead its energy interests in the UK. Page 12

HONG Kong Land, property arm of Jardine Matheson group, is seeking a listing on the International Stock Exchange for its shares and warrants and launching a sponsored American depositary receipts programme. Page 27

GOODMAN International: A group of 33 banks owed more than I£450m ($769.8m) by Ireland and Europe's biggest beef processor and exporter were due to decide today whether or not to advance a further I£30m of emergency working capital. Page 27

CLUFF Resources, USM-listed gold mining company, is to float 15 per cent of its subsidiary in Zimbabwe to raise Z$52.5m net ($20.68). Page 26

FRENCH cartel authorities are examining allegations by Condotte d'Acqua, Italian construction group, that French competitors have illicitly conspired to push it out of the market. Page 6

Saddam warns of attack if Iraqi economy is strangled

By Our Foreign Staff

PRESIDENT Saddam Hussein of Iraq yesterday warned that the economic strangulation of his country would force him to strike at Middle East oilfields and Israel.

"Oil, the region and Israel will be the victims of the resulting deluge," he declared. "It is those who create this deluge who will be strangled."

He also insisted Iraq's annexation of Kuwait was "eternal and irreversible under any circumstances".

His statement, broadcast by Baghdad Radio after a meeting of the Revolution Command Council and the ruling Baath party leadership, was his most uncompromising since Iraq's invasion of Kuwait on August 2.

It came amidst signs of increased divisions in the Arab ranks, following Saudi Arabia's decision over the weekend to expel Iraqi, Jordanian and Yemeni diplomats from the kingdom for allegedly trying to pinpoint US and other military targets for guerrilla attack.

On Friday, Saudi Arabia cut the flow of 33,000 barrels per day (b/d) of crude to Jordan's Zarqa refinery, officially because of payments arrears. But in Jordan the move was seen as a means of pressuring King Hussein for his ambiguous posture towards the Arab states aligned against Iraq and for hosting a conference of pro-Iraqi Arab radicals the previous week.

The Iraqi leader's belligerent statement also preceeds a week in which intense efforts will be made to find a diplomatic formula to end the Gulf crisis as the United Nations General Assembly convenes in New York.

Mr Javier Pérez de Cuéllar, UN Secretary-General, will meet many of the protagonists including the Iraqi foreign minister in New York this week. US President George Bush is also expected to continue to develop his plans for dealing with Mr Saddam in meetings with President Turgut Ozal of Turkey and the Emir of Kuwait, who is running a government-in-exile from Saudi Arabia.

Israeli officials last night said President Hussein's threats should not be taken lightly. They reiterated the Government's publicly-stated position that any Iraqi attack would meet with a devastating response by Israel. Under strong pressure from Washington, Israel has so far sought to keep a low profile in the crisis to avoid allowing Mr Saddam to turn the Iraqi invasion of Kuwait into an Arab-Israeli issue.

The Iraqi leader's statement appeared directed in part at the United Nations Security Council which is finalising a fresh resolution to tighten the land and sea blockade of Iraq by introducing an air embargo. He claimed the US and its allies were resorting to the "law of the jungle" by pushing for tighter sanctions.

Western intelligence experts claim that only limited supplies are still reaching Baghdad by air – being supplied either via Libya or Yemen and using either Jordanian or Syrian airspace. The embargo will

Continued on Page 24
The Gulf Crisis, Page 3

G7 forecasts continued economic growth in 1991

By Peter Norman, Stephen Fidler and Peter Riddell in Washington

THE WORLD'S leading industrial countries papered over their differences about interest rate policy yesterday and predicted continued growth for their economies next year.

After a weekend meeting in Washington, the group of seven – the US, Japan, Germany, France, Britain, Italy and Canada – said monetary policies directed to price stability and sound fiscal practices constituted the correct response to the Gulf crisis.

The rise in oil prices that followed Iraq's invasion of Kuwait posed risks of inflation and of lower economic growth, they said. However, they judged that the way forward was to adopt policies that would prevent higher oil prices affecting the underlying inflation rate. This non-accommodating approach would reduce the risks to growth.

The seven also backed the unification of Germany and the economic reform process in eastern and central Europe and threw their weight behind efforts to assist the so-called front-line states and other developing nations overcome economic problems caused by the Gulf crisis.

In their statement, they evinced less concern about the state of financial markets. While noting that stock markets had fallen substantially since the Gulf crisis began, the G7 expressed general satisfaction with exchange rate trends. "Exchange rates were now broadly in line with continued adjustment of external imbalances," they said.

Foreign exchange markets had been orderly in the face of fresh uncertainties while the yen, which was a cause of concern because of its weakness at the time of their last meeting in May, had risen in value.

The weekend's meeting was described by Mr Theo Waigel, the West German Finance Minister, as having taken place in a good atmosphere.

However, there were clear differences of opinion afterwards about the meaning of its main policy recommendations while Mr Ryutaro Hashimoto, the Japanese Finance Minister, let slip his worries about financial fragility in the currency and equity markets.

Mr Karl Otto Pöhl, the Bundesbank president, said it was significant that the ministers and central bank governors in the meeting saw tight monetary policies as the answer to the world's problems. He said the agreed statement showed that all participants wanted to maintain strict monetary policies.

A European participant said after the meeting that Mr Nicholas Brady, the US Treasury Secretary, and Mr Pierre Bérégovoy, the French Finance Minister, had tried but failed to make the communiqué reflect the possibility of interest rate reductions if growth came under threat.

Nevertheless, Mr Brady was pleased with the outcome of the meeting. He saw it as increasing international pressure for an early budget agreement to reduce the US federal deficit while providing leeway for a subsequent reduction in interest rates by the Federal Reserve. He said the Bush Administration did not intend to set aside a budget deficit reduction programme "for any reason."

Mr Brady stressed the twin risks of inflation and lower economic growth and said the G7 statement was intended to provide a balance.

Interest rates and issues of financial fragility were due to be discussed yesterday by G7 central bank governors at a private lunch. But after the G7 ministers' meeting Mr Hashimoto betrayed his own concern about this year's sharp fall in the Tokyo equity market and that the dollar might fall precipitately.

"We would accept a further strengthening of the Japanese yen against the US dollar or European currencies to the extent that such an appreciation was orderly and steady. We must by all means avoid any nosedive of the US dollar," he said. He said the meeting also stressed "the importance of a stable equity market."

FINANCE MINISTERS BACK FRESH WORLD BANK LOANS FOR PEKING

FINANCE ministers from industrial countries gave the green light at the weekend for increased World Bank lending to China, which has been severely restricted since the massacre in Peking in June last year, writes Stephen Fidler in Washington.

The move follows a warming in relations with the west after Chinese agreement not to block resolutions directed against Iraq in the United Nations Security Council.

Lending to China by the World Bank and its soft-loan affiliate, the International Development Association, has been limited to loans "for humanitarian purposes."

Japan has been pressing for relaxation of these conditions but was unable to secure agreement at the Group of Seven economic summit at Houston in June.

However, Mr Ryutaro Hashimoto, Japan's Minister of Finance, said yesterday: "The atmosphere at the meeting this time was substantially different from that at Houston. Our European friends also expressed a desire to increase flexibility with regard to China."

He said consideration would now be given to World Bank loans "that would be conducive to economic reform in China, especially in area related to the environment."

Mr Hashimoto's statement suggests that the World Bank will not be able to resume its full lending programme to China.

Mr Theo Waigel, West Germany's Finance Minister, said a balance had to be drawn between recognising China's contribution in the near east and its unsatisfactory domestic situation.

ON OTHER PAGES

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John Major: I will cut interest rates when I think it is safe

Major has no plans to lower UK rates

By Peter Norman, Economics Correspondent, in Washington

MR JOHN MAJOR, Britain's Chancellor of the Exchequer, yesterday warned that the UK faced several months of low or no growth with high inflation.

Shrugging aside warnings of recession from the Confederation of British Industry and the City of London, he made clear that he had no plans at present to lower interest rates.

Mr Major told a press conference in Washington: "I want to get inflation down, I am pretty fed up with an inflation performance that is less than the best in Europe." He warned that Britain would not be able to thrive in the Europe of the 1990s unless its inflation record improved.

Speaking just after he had warned the International Monetary Fund's policy-making Interim Committee against a premature easing up on inflation, he made clear that the economic slowdown in Britain was wholly to be welcomed. Inflation was the greater evil and his priority was to get it down.

Mr Major said that with each day he became more sure that Britain was in a disinflationary phase and that the retail price and underlying inflation rates would fall. However, Britain was experiencing a time-lag between disinflation and fall-

Continued on Page 24
CBI survey, Page 10

East German industry gaining liquidity and West German trust

By David Goodhart in Bonn

EAST GERMAN companies are beginning to pay their bills and West German banks are slowly starting to lend to them without guarantees from the Treuhand, the body charged with privatising East German industry, according to Mr Detlev Rohwedder, its chief executive.

However, since monetary union on July 1, West German and foreign capital had not flowed into East Germany in the quantities expected, Mr Rohwedder said.

"I will be disappointed if there is not a great deal more interest, especially from foreigners, after October 3 [the day of German unity]. In the past few months investors have been put off by the complex legal apparatus of an independent state," he said.

Mr Rohwedder said the liquidity position of most East German companies would look much better in the fourth quarter and he welcomed the fact that the DM30bn ($19.1bn) in new, Treuhand-backed, liquidity loans paid out in the third quarter would not have to be paid back until the end of March, instead of next month as planned. Only about half of the loans are expected to be repaid at all.

The Treuhand has DM25bn until the end of next year to hand out to companies for investment, instead of the DM17bn originally planned. However, one insider said the problem was not insufficient funds, but finding viable projects to which to lend.

Mr Rohwedder said the Treuhand itself – established in February by the East German Government led by Mr Hans Modrow – had sometimes been more of a hindrance than a help to potential investors. Initially the organisation had no resources, no workable structure and lots of obstructive Communist officials.

"Wrong personnel decisions were made in the early stages which led to the wrong decisions being made about privatisations," Mr Rohwedder said. The Treuhand is trying to revoke some of these decisions but is facing legal challenges from injured parties.

Mr Rohwedder was appointed chairman of the Treuhand supervisory board in June and chief executive last month after policy differences with the previous incumbent, Mr Rainer Maria Gohlke.

He stressed that price was not the only criterion in privatisation decisions. "We are committed to an open, competitive, market system, and do not want to see the establishment of giant German monopolies," he said.

Mr Rohwedder is fighting an earlier decision to sell the East German luxury hotels group, Interhotel, to the West German Steigenberger group, and also the takeover of part of the retail system by the West German Tengelmann group.

He also seems reluctant to allow Lufthansa to take a controlling stake in the East German airline Interflug: "It must be possible in a country of 80m people to have two airlines."

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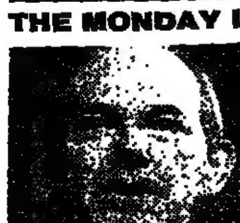
THE MONDAY INTERVIEW



Michel Camdessus, the managing director of the International Monetary Fund, has sought to make the IMF better understood and assert its central place in the international financial system. His style is naturally open and his approach acute and precise. Page 46

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FT SURVEYS THIS WEEK

WORLD ECONOMY: Even without Saddam Hussein and rising oil prices, signs of tension in the global economy were starting to emerge. *(See separate section today).*

TODAY: World Nuclear Industries: Slower growth than predicted. *(Pages 31-35)*
World Economy: *Separate section; see left.*

TUESDAY: Personal Computers: Western Europe has become the main battleground for suppliers.

WEDNESDAY: Waste Management: Stiffer regulation and higher costs to the consumer.

THURSDAY: Netherlands Antilles: Adapting and prospering in hard times.

FRIDAY: Northern Ireland: Rising confidence: uncertain outlook.
FT Review of Business Books: The pick of the latest titles.

Industrial nations agree Gulf aid strategy

By Peter Norman and Stephen Fidler in Washington

THE world's leading industrial countries have agreed to set in train their aid strategy for countries hard hit by the Gulf crisis.

At their weekend meeting in Washington, the finance ministers of the Group of Seven countries agreed a two-tier approach to resolving the problems of both the "front line" states affected by Iraq's invasion of Kuwait and developing nations hit by the rising price of oil and loss of workers' remittances and trade as a result of the embargo against Iraq.

The G7 – the US, Japan, Germany, France, Britain, Italy and Canada – together with other donor-countries such as Saudi Arabia, the United Arab Emirates and South Korea, will work out under US leadership how to disburse the short-term emergency assistance to the front line states of Jordan, Egypt and Turkey.

The IMF and World Bank will concentrate on providing more medium-term assistance to other affected nations in the period to the end of 1991.

Senior officials from the donor countries will meet on Wednesday to assess the financing needs of the front-line states with a view to an early decision on giving support. According to Mr Horst Köhler, the state secretary in the West German finance ministry, they will have to overcome serious differences between the EC's estimate that the states need $9bn (£4.70bn) and the US wish to provide $15bn.

Mr Michel Camdessus, the IMF managing director, told the G7 meeting that other nations would require 5bn special drawing rights ($7bn) of IMF and World Bank support to compensate for the economic costs of the Gulf conflict.

The G7 meeting called on the IMF to examine how to make its Compensatory and Contingency Financing Facility (CCFF) more responsive to the needs of the affected nations.

Mr Ryutaro Hashimoto, the Japanese finance minister, said ministers had accepted a Japanese proposal temporarily to expand access to the Fund for such countries and to increase its flexibility.

The World Bank has also said it will accelerate, where possible, loans to eastern Europe because of the double oil blow to the region's economies. They will be hit by the breakdown of Comecon – and the switch at the end of the year to paying the Soviet Union for its oil at market prices in hard currency – and the price rise prompted by the Gulf crisis.

Mr Eugenio Lari, director of the bank's Europe, Middle East and North Africa region, said new economic reform loans would be considered – to aid restructurings, for example, in the energy sectors of the economy. There will also be scope for loans in support of a regional initiative to aid, for example, the environment.

He said Bank estimates show that Bulgaria, expected to join the Bank this week, will be the worst hit in the region. Based on an assumption that oil prices stay at just below $30 a barrel, nearly 15 per cent would be wiped from gross domestic product. Hungary will suffer least, although GDP will shrink by more than 1 per cent.

The 22-country Interim Committee of the Fund is expected to discuss today a proposal from Mr Camdessus. His idea is that oil-producing countries should provide resources to subsidise IMF credit to badly-hit oil importing countries not poor enough to benefit otherwise from concessional IMF loans.

JAPAN will offer $300m (£160m) in emergency soft loans to Egypt, $200m to Turkey, and $100m to Jordan to help ease the economic squeeze on them caused by the Gulf crisis, writes Ian Rodger in Tokyo.

Tokyo said on September 14 it would provide $600m in emergency loans to the three "front-line" nations to help them pay for vital commodity imports. Officials said Premier Toshiki Kaifu would formally announce allocation of the $600m in commodity loans when he visits five Middle East countries next month.

The loans, to be issued by the government's Overseas Economic Co-operation Fund (OECF), carry an annual 1 per cent interest rate over 30 years. Japan has pledged another $1.6bn in grants and loans to Middle East nations hit by the Gulf crisis.

SOUTH Korea will commit more than $200m (£106m) to aid US efforts in the Gulf crisis, the national news agency Yonhap said yesterday, Reuter reports from Seoul.

Yonhap said Mr Yoo Chong-ha, vice-foreign minister, would announce the aid package today. South Korea had decided to set aside $200m-$230m for aid to the US-led international force in the Gulf and to Middle East states hit by the UN trade embargo on Iraq.

President Roh Tae-woo said on Saturday the US had asked for $350m. Seoul has said it will help US efforts in the Gulf sparked by Iraq's invasion of Kuwait, but cites an economic downturn and recent floods as limiting its means.

Seoul newspapers say South Korea plans to emphasise non-combat elements in its aid package.

Romania joins IFC to promote enterprise

By Peter Norman

ROMANIA yesterday joined the International Finance Corporation, the World Bank's affiliate that promotes the private sector in developing countries.

Mr Theodor Stolojan, the Finance Minister, said that Romania had joined the IFC as part of its plan to privatise virtually all the country's state-owned industry.

He said the government would give 30 per cent of state businesses to the people. The other 70 per cent would be sold as shares to Romanian or foreign investors.

"Joining the IFC is a big step in the economic programme for transition to a market economy," Mr Stolojan said. He added it was a very good signal to foreign countries as well as the Romanian people that the government was determined to adopt the market economy.

Romania has been a member of the International Monetary Fund and World Bank since 1972. It could not join the IFC before last December's revolution because it had no private sector, Mr Stolojan said.

Romania's decision to join the IFC comes at a time when the country is attempting to introduce economic reforms.

But these efforts are hindered by the Gulf crisis, the legacy of the highly centralised economic system bequeathed by the late President Ceausescu, and an infrastructure starved of capital investments.

Mr Stolojan said higher oil prices caused by the Gulf crisis would cost Romania $600m in the last quarter of this year and first quarter of 1991. Romania was owed $1.7bn by Iraq and had been planning to take oil in payment of this debt until international sanctions on Baghdad.

He indicated that Romania wanted a stabilisation fund to back its reform efforts, especially its plan to make its currency, the leu, convertible. He recalled that Poland had received a $1bn stabilisation fund to support the zloty from the international community, and said Romania would want something similar.

Brady takes heart from G7 pressure for US budget pact

By Peter Riddell, US Editor, in Washington

MR Nicholas Brady, US Treasury Secretary, has welcomed the Group of Seven's weekend statement as increasing international pressure for an early budget pact to reduce the federal deficit and as providing leeway for a subsequent cut in short-term interest rates.

The US had resisted some European calls for an unqualified primary commitment to fighting inflation and maintaining high interest rates. Instead, as US Treasury officials had sought, the statement contains a more ambiguous reference to "stability-oriented monetary policies and sound fiscal policies".

After the G7 meeting, Mr Brady stressed the twin risks of inflation and lower economic growth and said the G7 statement was intended to provide a balance, navigating between the two risks.

The G7 ministers were not, he said, "emphasising the inflation risk more than others, including the risk of lower economic growth." The statement did not change anything he had previously said about the Federal Reserve – which has been that it should consider cutting short-term interest rates, especially after a budget deal was completed.

He talked of sustaining growth in countries without runaway inflation, an apparent reference to the US, and welcomed the call by other G7 ministers "to bring the budget summit to a prompt and successful conclusion". He was still "an optimist, but a tired optimist" after talks launched in May when the finance ministers were last in Washington.

The statement's references to the budget summit have special point, since there is now a week to go before across-the-board spending cuts of up to $105bn (£56bn) will be imposed under the Gramm-Rudman deficit reduction law, in the absence of an agreement. A short-term rise in the federal debt limit will also expire, preventing any further borrowing.

White House officials and Congressional leaders are still talking about the means to achieve the agreed aim of a $50bn cut in the deficit in the 1991 fiscal year starting on October 1 as the first stage of a $500bn, five-year reduction.

Hopes raised 10 days ago of an early agreement have faded and both sides are now preparing for what happens with a breakdown.

The main options are:

- Some form of last-minute deal will be agreed, allowing Congress this week to pass some stop-gap legislation before detailed approval later.

That could involve some version of the two-stage plan offered by Senator Robert Dole, the Republican minority leader, whereby the proposed cut in capital gains tax and some other controversial issues are voted on separately from the main deficit package. However, that idea has been resisted by some in the White House and by House Republicans.

- Congress seeks to postpone both decisions and across-the-board cuts until after the mid-term elections on November 6, though this is opposed by the White House.
- Across-the-board spending cuts take effect, resulting in immediate big lay-offs of federal employees, and cuts in a wide range of services, from air traffic control to health care and food inspection.

The Administration hopes the resulting public outcry would both produce an early budget agreement and shift the blame onto Congressional Democrats.

Mr Alan Greenspan, the Fed chairman, has made clear that monetary policy will not be eased until there is "credible, multi-year" budget package.

Bolivia aims to erase bank debt

BOLIVIA is aiming to erase its remaining commercial bank debt, perhaps by the end of the year, Mr Enrique Garcia Rodriguez, Minister of Planning and Co-ordination, said yesterday, Stephen Fidler reports from Washington.

Mr Garcia, who heads the economic team, said Bolivia is expecting to buy back its $200m (£106m) remaining debt, either for cash at 11 cents on the dollar or for investment bonds, carrying the right to invest in the country, at 16¼ cents.

The funds are being provided by the Netherlands, Switzerland, Sweden and the US, combined with a $10m grant from the World Bank's soft loan affiliate.

Bolivia has already bought back about $500m of its bank debt at a price of 11 cents on the dollar. Mr Garcia said the country would be one of the first to benefit from President Bush's Enterprise for the Americas initiative, including a proposal for forgiveness of Latin American debt to the US.

Chile wins agreement on debt rescheduling

By Stephen Fidler

CHILE has secured rapid agreement with leading international banks over what is expected to be the country's last debt rescheduling accord. It should pave the way for the issue of about $320m (£170m) of bonds to cover the country's new cash needs for the next three years.

According to Chilean officials, Santiago will also sign early next month an agreement with Mexico to eliminate tariffs between the two countries. The Government is also said to be close to concluding a negotiating framework with the US to pave the way towards a free-trade agreement. Although the US has negotiated a similar arrangement with Mexico, a framework agreement with Chile would be the first to follow the launch of President George Bush's Enterprise for the Americas initiative.

Mr Alejandro Foxley, Chile's Minister of Finance, said the agreement with its 10 main banks, led by Manufacturers Hanover, would reschedule $1.8bn of maturities falling due over the next four years. The first principal repayment on that rescheduled debt would be in 1995, helping to iron out a hump in Chile's debt maturities in 1991 and 1992.

The rescheduling will carry the same rates as on the current debt – interest margins of 13/16 a percentage point and ¼ per cent. The banks also declared a "strong interest in principle" to subscribe to a significant portion of the $320m in new bonds.

The banks' expression of interest, said Mr Foxley, was voluntary, and a number had already agreed in principle to make a commitment of new funds. The bonds are expected to have a five-year life, with a two-year grace period before principal repayments have to be made. They will carry an interest margin of 1.5 percentage points over money market rates.

Mr Foxley described the agreement as important. "It shows that there is a route that can be travelled back to the market," he said.

On trade, Mr Foxley said he was confused about the signals being sent from the US. The Bush Administration continues its free-trade rhetoric, but non-tariff barriers continue to exclude significant amounts of Chilean goods from the US market.

Chile wanted to move ahead with bilateral trade agreements, he added, because the Government is "a bit sceptical about what will end up happening on the Uruguay Round" of multilateral trade talks. He said he shared US concerns about the European Community's Common Agricultural Policy, which he described as a "very serious problem."

LEADING industrial countries have called on Brazil to resolve its arrears problems with its foreign creditors, Stephen Fidler reports. Brazil is $10bn (£5.4bn) behind in interest payments to external creditors, most of it owed to commercial banks.

The G7 weekend communiqué said ministers "expect Brazil to resolve its arrears problems with external creditors" under a $2bn standby loan programme with the IMF. It suggests IMF board approval of the loan for Brazil will depend on the country's resuming some interest payments to commercial banks.

The banks have attacked the decision by Mr Michel Camdessus, IMF managing director, to agree in principle to the loan without first winning a public pledge from Brazil to pay some interest to banks. A letter from Brazil to Mr Camdessus commits it to resuming interest payments to creditor governments, but makes no such commitment for banks.

The communiqué also welcomed recent progress towards finalising a bank debt agreement with Venezuela.

Prague and IFC discuss privatisation mutual fund

By Stephen Fidler

CZECHOSLOVAKIA is talking with the International Finance Corporation, the World Bank's private sector development arm, about establishing a mutual fund to invest in privatised companies.

The aim of the fund would be to "help with the mechanics of the privatisation process" and encourage the development of an institutional investor base, said Mr Vaclav Klaus, the country's finance minister, after signing the agreement that allowed Czechoslovakia to become the 136th member of the IFC.

The Government is planning a voucher system to privatise its large state-owned companies.

Developing nations split over move for oil fund

By Stephen Fidler

DEVELOPING countries of the Group of 24 have failed to call for a special International Monetary Fund oil facility after a serious split emerged between oil exporting and importing nations.

A proposal by India and Pakistan to establish such a facility, by implication funded by those benefiting from an oil windfall, was successfully killed by the oil producers.

Mexico, Venezuela and Nigeria are among the prominent members of the committee, of which Iran is the president.

In a contentious debate, the oil producers' view was that current IMF instruments should be used flexibly to provide necessary aid.

There was no guarantee that the oil price rises following Iraq's invasion of Kuwait would be anything other than temporary.

Gulf oil producers also held that the uncertainties in the Gulf provided their own pressures for countries in the region.

The debate illustrates a division of economic interest among the developing countries over higher oil prices, although G-24 ministers noted "with deep concern the seriously adverse impact on many developing countries of the recent Middle East crisis."

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Bush scales down arms deal with Saudi Arabia

By Lionel Barber in Washington

THE Bush administration has revised plans to sell a $21bn (£11bn) arms package to Saudi Arabia and will present a scaled-back version to Congress this week, Mr James Baker, US Secretary of State, said yesterday.

The retreat follows heavy pressure from pro-Israeli members of Congress who objected to the size and quality of the arms transfer, which includes jet fighters, tanks, missiles and other sophisticated modern weaponry.

The administration's new plan is to split the arms package into two phases, with this week's version covering Saudi Arabia's immediate needs to defend itself against Iraq. The second longer-term package could be sent to Congress in late January or early February, Mr Baker said.

Although the revised plan may disappoint Saudi Arabia, the administration has calculated it cannot risk a bruising battle with Congress which could jeopardise other objectives such as the planned write-off of $7bn of military debt owed by Egypt and, more important, support for possible military action.

Despite some sniping, President George Bush still enjoys overwhelming backing among the American public and in Congress for his Gulf strategy, which combines economic and diplomatic pressure against Iraq with a continuing military build-up on the Arabian peninsula.

The administration is keen to keep the military option against Iraq "credible". Reports from Saudi Arabia yesterday suggested that the United States has drawn up contingency plans to mount a ground assault against Iraq from as many as four directions.

The attack would require US troops to cross the Jordanian desert and Turkish mountains to get to the Iraqi frontier, the Washington Post said. This could pose problems of access, particularly with King Hussein of Jordan, who gave a half-hour weekend TV address to Americans urging withdrawal of US forces.

But US military commanders reportedly want to draw some of Iraq's 140,000 elite Republican Guards away from Kuwait in the event of a US-led campaign to liberate Kuwait, if United Nations sanctions against Baghdad fail to work.

The military reports came one week after General Michael Dugan, the top-ranking US Air Force officer, was fired for revealing detailed plans for air strikes against Baghdad aimed at pulverising Iraq into withdrawing from Kuwait. Together, they suggest the US military wants to keep Mr Saddam guessing while preparing the American public for possible war.

Mr Baker preferred to stress that there was still room for diplomacy to resolve the crisis. However, he put Iraq on notice that terrorist acts against the US would amount to a "provocation" which could lead to immediate US military retaliation.

The secretary of state drew a contrast between possible unilateral US responses to terrorism and the preference for multilateral action in enforcing the UN embargo against Iraq.

In the absence of any obvious shift in strategy, the press and television in the US have turned their attention to the policy failure toward Iraq, prior to the conquest of Kuwait.

The New York Times devoted a whole page to an Iraqi-supplied transcript of a meeting between Mr Saddam and Ambassador April Glaspie, in which the US envoy said Washington had no view on the border dispute between Iraq and Kuwait.

Mr Baker said the fuss amounted to "retrospective scapegoating", and said any suggestion that the US encouraged the Iraqi invasion was ludicrous.

Hussein urges forces to pull out

By Lamis Andoni in Amman

KING Hussein of Jordan yesterday demanded the immediate withdrawal of the multinational force from the Gulf in a televised message to the US Congress and people, less than 24 hours after Saudi Arabia cut off oil supplies to his country and ordered the expulsion of Jordanian diplomats from Riyadh.

The king's message was widely interpreted in Amman as a rejection of pressures from the US and Saudi Arabia – his country's two main financial backers – to support the western military mobilisation against Iraq in the Gulf.

"We are not going to join the warmongers no matter what," a senior Jordanian official said.

The Jordanian position is likely to undermine its efforts to secure desperately needed international grants and financial support to salvage its rapidly deteriorating economy. Mr Basel Jardaneh, finance minister, said the kingdom stood to lose $4.1bn (£2.2bn) as a result of the international embargo against Iraq, its biggest trading partner. He added that Jordan would need a minimum of $1.5bn in loans and grants to manage its current fiscal problems.

The US has dissociated itself from Riyadh's decision to cut oil supplies to the ingdom and expel Jordanian diplomats, but the prevailing feeling in Amman is that the Saudi Arabian moves were encouraged by the US as punitive measures to force King Hussein to alter his position.

Jordanian officials said that King Hussein was walking a tightrope trying to reconcile his rejection of the Iraqi occupation of Kuwait and his opposition to western military intervention in the Gulf.

"We cannot condone the acquisition of territories by force... We also cannot accept the annexation of a country... because this will undermine our just case vis-à-vis Israel," one senior official said.

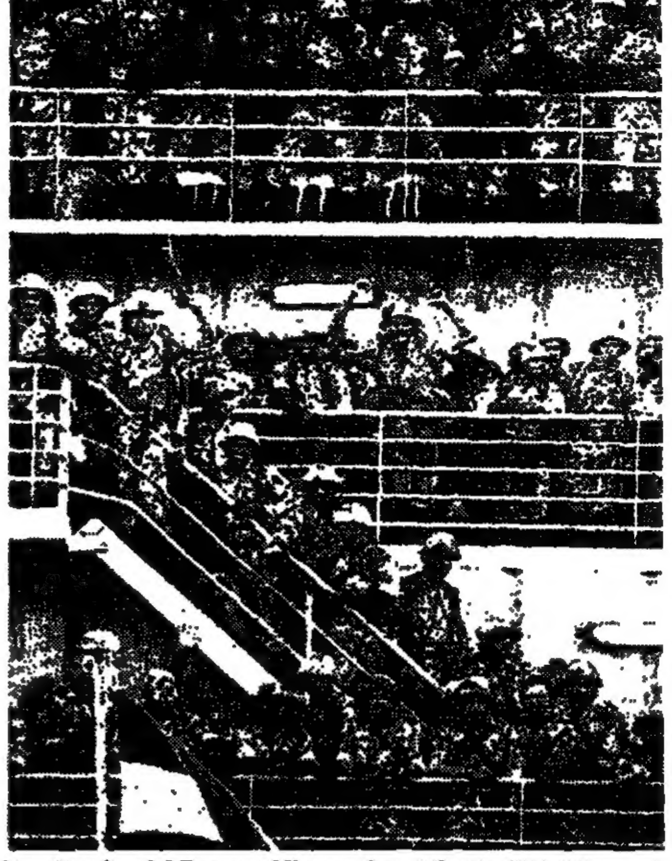
"But we also cannot accept this situation [the military build-up] to dominate the region at the expense of the people of the area and in the service of the selfish interests of others."

Officials concede that he is caught between a hardening on the part of Iraqi President Saddam Hussein, who would view a withdrawal from Kuwait as a defeat, and the apparent US desire to remove him.

Jordanians fear a military confrontation in the Gulf could lead to Jordan sacrificing its existence as an independent entity.

● Medical staff aboard the floating hospital ship USNS Mercy, a converted oil tanker on its first trip back to the Middle East, said yesterday they were preparing for heavy casualties in the Gulf.

"If there were any hostilities, there would be great numbers in the first days," said Captain Paul Barry, the ship's chief doctor.



Egyptian Special Forces soldiers arrive at the Saudi Red Sea port of Yanbu to bolster the pan-Arab forces against Iraq

Assad presses reluctant Iran

By Tony Walker in Cairo and Kamran Fazel in Tehran

PRESIDENT Hafez al-Assad of Syria pressed Iran's leaders at the weekend to support the international campaign against Iraq's seizure of Kuwait. But Tehran made clear its deep unhappiness over foreign forces in the Gulf region.

Mr Assad, who has emerged as an unlikely ally of the US in the present crisis, is on a delicate mission to Tehran to persuade the Iranian leadership not to waver in its backing for UN sanctions against Iraq.

The Syrian ruler has also been at pains to reassure Iran that once the Gulf crisis ends foreign troops will leave. Syria itself has committed some 15,000 men to Saudi Arabia and the United Arab Emirates to confront Iraq.

"We declare and stress, without any ambiguity, that we will not accept the presence of foreign troops in this region after the Kuwaiti problem is resolved and after this pretext is removed," Mr Assad said on Saturday at a banquet given for him by Iran's President, Ali Akbar Hashemi Rafsanjani.

Welcoming his guest, Mr Rafsanjani used the occasion to launch a stinging attack on a US-proposed security structure for the Gulf region in the post-crisis era, describing it as an "arrogant scheme".

Coinciding with Mr Assad's arrival, it emerged that Iran had taken delivery of from the Soviet Union of an undetermined number of Mig-29s, the most sophisticated jet fighter exported by Moscow.

Mr Assad, who was Iran's only Arab supporter during the protracted Gulf war, is also seeking to persuade Tehran to improve relations with Saudi Arabia and Egypt. One of Syria's aims is to build a strong anti-Iraq axis among the region's main powers. But as a sign of Iran's concern over the prospect of conflict in the Gulf, the Tehran Times said yesterday that a peaceful solution to the crisis was urgent.

Damascus and Baghdad, capitals of rival wings of the Arab Baath Socialist Party, have been at loggerheads for years. Mr Assad and President Saddam Hussein are bitter rivals.

Both Syria and Iran are in broad agreement in their opposition to Iraq's brutal takeover of Kuwait. But Tehran's position on the enforcement of UN sanctions against Iraq appears to have been wavering.

Relations between the Gulf war adversaries thawed following Iraq's acceptance of most of Iran's conditions for peace, including territorial claims. The two sides resumed diplomatic relations earlier this month after a three-year break.

According to the Iranian newsagency, IRNA, Presidents Assad and Rafsanjani "saw eye to eye on most regional issues". But Iranian opposition to the presence of foreign forces in the Gulf is a potential source of friction.

"We should not allow foreign forces who are all geared up to tighten their grip on vital oil resources, the Persian Gulf, the Red Sea and other sensitive points of the world, to remain in the region," Mr Rafsanjani said.

Mr Assad arrived in Tehran on the day that Iran staged a big military parade to mark the 10th anniversary of the Iraqi attack which it claims started the eight-year Gulf war.

Tehran Radio reported that Mr Assad flew to Mashhad yesterday to visit the city's shrine. He returned to Tehran in the afternoon for a meeting with Iran's religious leader Ayatollah Ali Khamenei and more talks with Mr Rafsanjani.

Crisis overshadows UN debate

By Robert Mauthner in New York

THE Gulf crisis will overshadow the main debate of the United Nations annual General Assembly, which is due to open in New York today under a new president, Mr Guido de Marco, Deputy Prime Minister and Foreign Minister of Malta.

At the last minute, the General Assembly added the Iraqi occupation of Kuwait for priority consideration on its agenda of as many as 153 items.

Predictably, the Iraqi representative did not agree with the wording of the relevant item, which referred to "Iraqi aggression and the continued occupation of Kuwait in flagrant violation of the Charter of the United Nations".

He suggested that it would be more appropriate for the title of the item to refer to the US military build-up in the Gulf region. Though the assembly took note of the Iraqi position, the original wording was maintained.

The general debate begins today with speeches by some of the world's principal leaders, including 27 heads of state, 18 prime ministers and more than 100 foreign ministers, starting with addresses by the presidents of Brazil and France. Even more heads of government are expected to attend the so-called "children's summit" organised by Unicef next week-end.

There can be little doubt that the large number of heads of state and government have been attracted by the enhanced prestige of the United Nations, following the high profile it took in the Iran-Iraq war and, particularly, the current crisis in the Gulf.

While the General Assembly is not empowered to adopt binding resolutions like the Security Council, it provides a good forum for the smaller states, not least the developing countries, who have no say in the Security Council.

Israel to seek help for migrants

By Hugh Carnegy in Jerusalem

ISRAEL this week will step up its appeal for aid to help it absorb hundreds of thousands of immigrant Soviet Jews when Mr Yitzhak Moda'i, finance minister, takes time off from the World Bank/IMF meetings in Washington to meet US officials.

The huge cost of accommodating the influx, expected to total 1m within five years, has been overshadowed in recent weeks by the Gulf crisis. Events in the Gulf have also complicated Israel's bid to seek financial help from abroad, primarily from the US, which already gives Israel some $3bn (£1.5bn) a year in military and economic grants.

But the immigration task remains an overwhelming issue in spite of the distraction of Iraq's invasion of Kuwait.

Finance ministry projections suggest that Israel will have to raise no less than $18bn in aid and funds from the Jewish diaspora over the next five years, in addition to external borrowing of $12bn. The government says EC countries should also help out.

The difficulty is that the appeal for help coincides with far more pressing aid priorities in Washington and elsewhere. Already, requests by Mr Moshe Arens, defence minister, for increased military aid to offset big arms sales to Saudi Arabia and other Gulf allies against Iraq have met with a cautious reception in Washington.

The signs are that Mr Moda'i will not get much further in his planned meetings with Mr Nicholas Brady, US Treasury Secretary, and Mr James Baker, Secretary of State.

INTERNATIONAL NEWS

'Limited scope in cross-border mergers'

Guy de Jonquières examines a different approach

MERGER mania may have run its course in the US and Britain. But developments such as Pirelli of Italy's battle for control of Continental, West Germany's largest tyre-maker, suggest it is far from over in continental Europe.

That would be welcomed not only by fee-hungry investment bankers, lawyers and consultants, but by those Brussels policy-makers who believe mergers have an important role in re-shaping the structure of European industry ahead of 1992.

The Cecchini report on the single market, published by the European Commission in 1988, made much of the need to rationalise sectors where long-standing national trade barriers had bred fragmented, inefficient and excess capacity.

Since then, the volume of deals has grown impressively. Last year, there were almost 1,300 cross-border mergers in western Europe together worth more than $45bn (£24bn), according to Translink, a research company.

Less clear is the longer-term impact of all this activity on the industrial coal-face. How far will it produce more efficient, pan-European, groups organised to treat all the EC as a home market?

How far is it the result of shotgun corporate marriages which risk falling apart or creating European-scale monopolies?

Some earlier visions of the effects of 1992 on Europe's industrial structure are already proving too simplistic. Companies in capital-intensive industries, such as electronics, had hoped pooling production would provide decisive advantages. Yet a succession of mergers between European-owned chipmakers has so far failed to yield adequate scale economies.

Likewise, the once-fashionable notion that companies would rush to centralise production for all of Europe in a few big factories in low-cost countries looks wide of the mark.

Manufacturers have poured into Spain, but many seem interested in producing there mainly for the local market.

Companies such as IBM and Matsushita of Japan, with extensive European operations, say they will continue, partly for political reasons, to manufacture in many different countries, even if efficiency suffers.

Conventional wisdom about the pattern of industrial

THE EUROPEAN MARKET

change is further challenged in a decidedly sceptical study* of European mergers and acquisitions by the London Business School's Centre for Business Strategy.

It argues that, based on European companies' public statements, few cross-border deals are prompted by the search for bigger scale economies, the importance of which had in any case been exaggerated. Unlike purely national mergers, the overwhelming motivation was to gain access to new markets.

The study also pours cold water on the idea that cross-border mergers are forging genuinely pan-European industry structures. Not only were such deals more limited than crude statistics seemed to suggest, but they were not an especially effective method of building a solid base in the single market.

"Possibly the most striking feature of European cross-border mergers is their rather limited scope. One definitely does not get the impression that merger activity represents a major inter-penetration of European markets by European firms," the study says. It finds that:

- Much of the recent growth in European mergers has been concentrated in Britain and involved UK companies. Though the number of EC mergers almost trebled between 1983 and 1987, deals across borders declined as a proportion of the total.
- Cross-border mergers in Europe were "not a predominantly European sport but an Anglo-American game". British and US companies initiated 43 per cent of larger deals between 1986 and 1988, and companies from the rest of the EC only 17 per cent.
- The evidence suggested that European companies viewed mergers and acquisitions as much as a way to dominate their home markets or to expand overseas as to strengthen their presence in the Community.
- Most cross-border mergers involving European companies were in adjacent countries. US and other non-EC companies had been more adept than their local competitors at using mergers to penetrate the European market as a whole.
- There was only a tenuous link between those sectors where merger activity was most intense – chemicals, food and electrical and mechanical engineering – and those where excess and fragmented capacity made rationalisation economically most desirable.

The study's authors conclude from all this that, as a response to 1992, European mergers have so far been rather unimpressive. How well does this dismissive judgment stand up to closer scrutiny?

That most European mergers have so far been Anglo-American-inspired is indisputable, though it is less certain that will hold good now domestic activity in the US and Britain has abated. It is also true that many companies, particularly in the food sector, have viewed acquisitions primarily as a rapid way to gain a foothold outside their home market.

By concentrating narrowly on bare statistics, the study understates the extent to which once-chronically fragmented European industries have been rationalised by national and cross-border takeovers since the start of the 1980s.

In telephone exchange manufacturing, a classic national champion business, the number of European suppliers has fallen from 10 to four, while roughly 12 semiconductor makers have been consolidated into three main groups. Large chunks of the white goods industry have been absorbed by Electrolux of Sweden.

Philips of the Netherlands, Thomson of France and Nokia of Finland between them now control all European-owned production of consumer electronics. Since Asea of Sweden merged with Brown Boveri of Switzerland in 1987, it has made more than 60 acquisitions in heavy engineering, in Europe and overseas.

In chemicals, intensive merger activity has not cut the number of players as sharply as in other sectors. But it has contributed to a fundamental shift in industry structure as companies' sharper focus on core businesses has caused them to trade peripheral activities, often across borders.

The unresolved issue is how far this restructuring has stimulated competitiveness. Much will depend on whether the challenge of digesting acquisitions and integrating mergers outweighs the expected benefits. Recent profit falls at some acquisition-hungry companies such as Electrolux and Rhône-Poulenc of France suggest the costs can be high, at least in the short term.

The study argues that many advantages of full mergers can be captured by less ambitious arrangements such as joint ventures, partial mergers and cross-shareholdings.

These, it says, offer a less risky way of surmounting the obstacles posed by Europe's diverse national laws and business cultures.

They were also the most effective means for UK companies to expand in continental Europe, where resistance to outright takeovers was often strong.

That still leaves open questions such as how successfully Anglo-US impatience for rapid financial returns can be reconciled with the longer-term approach prevalent elsewhere in Europe. But in the current business environment, a cautious, low-key approach may also have another virtue.

In some recent European mergers, industrial logic has been less obvious than the opportunistic impulse to nab partners while they were available, or the desire to defend against unwelcome predators.

Such deals have doubtless been influenced by the expectation that buoyant economic growth would provide a safety cushion if things went wrong. Uncertainties created by the Gulf crisis have made that assumption less plausible and narrowed the margin for error.

The study warns: "Those who rise too quickly to the dance floor for fear that there will be no nice girls left, risk waking in the morning beside unsuitable partners."

The sternest test of Europe's corporate marriages may be how well they survive a more turbulent economic climate.

**Continental Mergers are Different: Strategy and Policy for 1992. £10. Centre for Business Strategy, London Business School, Sussex Place, London NW1 4SA. Tel: 071-724 7875.*

China bid to rejoin Gatt is postponed

By William Dullforce in Geneva

CHINA'S application to rejoin the General Agreement on Tariffs and Trade has been effectively postponed until next year.

After a two-day meeting, the working party of Gatt members examining the application decided on Friday to draw up over the next two months a list of the many points concerning China's economic reforms on which it requires more convincing explanations from Peking.

The group put China's application on hold after the suppression of the student revolt in Tiananmen Square in June, 1989. Peking sent a 14-member team to Geneva last week to try to break the deadlock.

Avoiding references to moral or human rights, the European Community and the US focused on the changes in economic policy introduced in the second half of 1989.

In their view, these modifications marked a retreat from the movement towards a decentralised, market-oriented economy that might have made China's trading structure compatible with Gatt.

The achievements of 10 years of reforms had been seriously damaged by the changes, the EC said. The policy of price fixation through state plans was a major step backwards.

Fan Guoxiang, leader of the Chinese delegation, promised the introduction of new reform plans in October.

But the EC commented sceptically on "new subtleties" in Chinese official statements, differentiating between economic reforms indispensable to the country and market-oriented reforms which might not be necessary.

Syse decides to stay as Premier

THE political future of Mr Jan Syse, Norway's conservative Prime Minister, and his weakly bonded centre-right coalition Government, looked increasingly in doubt following his decision to remain as Premier in spite of admitting to violations of Norwegian corporate law in his own companies' accounts.

The opposition Labour party, dissatisfied with a report on the affair, says it will investigate the findings.

The Prime Minister early last week had sought to quell controversy by hiring two of Norway's foremost authorities on accountancy and taxation to investigate and report on his private economic affairs.

Mr Syse said he found "nothing in this material" which required his resignation as Prime Minister. "I shall remain to undertake further my and the Government's political work," he said.

However, the longer he stays on, the more likely the authority of the coalition Government will weaken.

This would affecting the work of the Storting, Norway's parliament, which reconvenes today.

No accord on weapons limits

A WARSAW Pact commission on disarmament yesterday failed to agree proposed limits on the amount of weapons each country can hold under a planned East-West accord on reducing conventional forces in Europe, AP reports from Prague.

The two-day meeting, held behind closed doors, was attended by deputy foreign ministers and chiefs of staff from all seven Warsaw Pact countries.

The meetings were designed to hammer out a unified position of Warsaw Pact states in negotiations with the 16 Nato countries at talks on reducing Conventional Forces in Europe.

A conventional arms accord is to be ready for signing by the 23 Nato and Warsaw Pact countries at a summit of the Conference on Security and Cooperation in Europe scheduled for Nov 19 in Paris.

An agreement on the quotas for tanks, armoured vehicles and artillery was not yet reached. Negotiators from East and West have reached agreement on numerical ceilings and definitions for main battle tanks but they have made little headway in reducing combat aircrat because of differences over what should be covered.

Swiss vote for moratorium on building nuclear power plants

By William Dullforce in Geneva

SWISS ecologists and anti-nuclear groups succeeded in winning over 54 per cent of the vote for a 10-year moratorium on building more nuclear power plants, despite of opposition from the Government and the power industry.

Another proposal calling for closure of existing nuclear plants as quickly as possible was narrowly defeated by a 52.9 per cent majority.

The demand for a vote on a moratorium was first made before the accident to the Soviet nuclear power station at Chernobyl in 1986. Since Chernobyl, Switzerland has observed a de facto moratorium on new plants, but the latest vote ensured this would remain the policy into the 21st century.

The second referendum was launched soon after. Proponents of the moratorium argued it would give Switzerland time to improve its energy saving methods and assess alternative energy sources.

The power utilities had warned that, unless two new nuclear plants were built, Switzerland could face a shortage of some 7bn kilowatt/hours of electricity in the winter of 2004 to 2005.

Two years ago the government halted construction of a plant at Kaiseraugst near Basle. The project has now been scrapped and SFr350m ($265m) has been paid to its developers. Plans for a plant at Graben had also been virtually abandoned before the vote.

In a third referendum, 71 per cent of voters approved a new law giving greater powers to the federal government in determining energy policy. In 1983, most of the cantons refused to delegate such authority.

The government will now be able more easily to set standards for energy use in factories, appliances and cars, and promote energy conservation more effectively.

In a separate development, Swiss voters approved by a 52.8 per cent majority a government proposal extending from 2.3 metres to 2.5 metres the limit on the width of lorries allowed to use Swiss highways.

The government has exempted the greater part of the road network from the lower limit. But the narrowness of the vote shows the strength of the opposition to allowing greater use of Swiss motorways for heavy traffic between the EC's northern and southern states.

Duty on emissions proposed

By David Goodhart in Bonn and our Foreign Staff

A DUTY on carbon dioxide emissions of DM10 per tonne has been proposed by the West German Environment Minister, Mr Klaus Töpfer.

The duty, which analysts believe has a reasonable chance of becoming law in the next two years, would raise about DM5bn (£1.6bn) per year.

Germany would become the first major European country to adopt such a duty, re-emphasising its vanguard role in environmental politics.

Mr Töpfer will formally present his proposal to the West German cabinet in November.

The German move coincided with moves by Mr Carlo Ripa di Meana, the EC environment commissioner, to introduce a Community-wide tax on oil, coal and natural gas.

He told a meeting of EC environment ministers in Rome at the weekend that such a tax could be used to encourage energy efficiency.

However, there was no agreement on the proposal, with some countries arguing that there was no need for such action at a Community level.

The German government has chosen a special carbon duty in favour of a tax so that the income can be directly ploughed back into measures to reduce carbon emissions, which contribute to the "greenhouse effect".

In June, the West German Government committed itself to reducing carbon emissions in West Germany by 25 per cent by the year 2005.

Last week, the Bundestag commission on the protection of the atmosphere proposed a 30 per cent reduction by 2005, but this would be for the whole of Germany. That would mean a cut of about 320m tonnes from the current level of just over 1bn.

WORLD ECONOMIC INDICATORS

INDUSTRIAL PRODUCTION (1985 = 100)

					% change over previous year
	Aug.'90	Jul.'90	Jun.'90	Aug.'89	
US	116.3	116.5	116.5	114.6	+1.5%
	Jul.'90	Jun.'90	May.'90	Jul.'89	
U.K	109.9	114.4	111.9	109.7	+0.2%
Japan	127.0	124.8	125.0	118.7	+7.0%
W Germany	118.2	116.2	116.4	112.5	+5.1%
	Jun.'90	May.'90	Apr.'90	Jun.'89	
France	112.0	111.5	111.3	110.9	+1.0%
Italy	118.9	119.0	118.8	118.2	+0.6%

Source: (except US) Eurostat

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INTERNATIONAL NEWS

Brussels outlines exchange system overhaul

By Lucy Kellaway in Brussels

RADICAL ideas for overhauling Europe's electronic and cash payments system will be put forward this week by the European Commission. The proposed changes would allow exchanges between EC states to be made as simply as in a single country.

The suggestions, made in the form of a green paper, are likely to receive a cool response from commercial banks, which are worried that their profitability will suffer as a consequence and that they would have to make expensive changes in their financial networks. Central bankers also are likely to be concerned about the regulatory implications of the proposals.

Sir Leon Brittan, the competition commissioner, argues that much of the benefit of the single market will be lost if payments between EC countries remain slow and costly. But the Commission is undecided about whether to introduce directives to force a change in payment systems, or whether to leave member states free to reach agreements among themselves.

Sir Leon's paper, which focuses on payments made by individuals and smaller companies, makes a number of suggestions to help make the system function better.

● Cash transactions: As currencies become firmly pegged to one another in the movement towards monetary union, cash transactions between them should be made free of any commission or other charge, as is the case between the British and Scottish pounds.

In the meantime the Commission intends to step up its efforts to ensure foreign exchange commissions are fully transparent and represent fair value.

● Transfers: The present elaborate and slow system of transfers through correspondent banks should be replaced by a European Automated Clearing House, a new body that would provide a link between national clearing systems. Such a body would have important regulatory consequences, as it would mean that central banks would no longer be responsible for the clearing of all payments made by banks in that country.

The paper also suggests minor changes to payments by Eurocheque and credit card, as both mechanisms already offer fairly smooth means of payment between member states.

Earlier drafts of the document met strong resistance from commercial bankers worried that the proposals could threaten lucrative commission income from foreign exchange transactions and from their correspondent banking networks. They were also sceptical over whether it was the Commission's job to set itself up as a troubleshooter in a commercial matter.

The Commission, which is inviting comments from the financial community, consumers and national authorities, is hoping to convince banks that their attempts to protect the status quo are doomed to failure. It has suggested that the ideas in the green paper are only proposals.

Sir Leon next month will present the paper to a conference of bankers in Brussels. A committee, likely to consist of representatives from central banks, existing clearing organisations and commercial banks, will be set up early next year to discuss the plans.

EC row builds up over sugar quota for East Germany

By Tim Dickson in Brussels

A BITTER behind-the-scenes battle is being played out in Brussels over the proposed European Community sugar quota for East Germany.

The issue, one of the most divisive problems in the whole package of EC measures needed to accommodate an enlarged Germany, is expected to flare up today or tomorrow at a meeting of Community farm ministers.

Many believe the outcome also has significant implications for the international trade talks known as the Uruguay Round.

A number of EC countries and much of the Community's sugar processing industry allege that the Germans are being offered an unrealistically high sugar production ceiling which will not only swell existing EC surpluses but land others inside Europe with a hefty bill for its disposal on world markets.

The absurdity of adding to the food mountains at a time when the Common Agricultural Policy (CAP) is supposed to be brought under control might seem a patent enough argument for most, but the prospect that other producers may be hit in the pocket because of the complex rules of the sugar regime is fuelling most of the concerns.

EC sugar production is controlled by two types of quota – the A quota, which roughly equates with the Community's own needs and qualifies for the full support or "intervention" price, and the smaller B quota equivalent to EC exports and for which a lower guaranteed price applies. The main cost to the EC budget – export subsidies – is clawed back each year through processing charges levied on producers (2 per cent for A quota, up to 37.5 per cent for B).

The system allows Brussels to claim that the sector is self-financing, which may be some comfort to taxpayers but is little consolation to consumers who pay for the industry's protection through high prices.

Political considerations apart, it is difficult to find any justification for the East German figure as it stands. Under the European Commission's proposal, the country's overall sugar quota has been fixed at 870,000 tonnes a year (665,290 tonnes of A quota, 204,710 tonnes of B quota), which will yield Brussels levies of roughly Ecu50m (£34.8m) to pay for any exporting costs.

Assuming an export subsidy of around Ecu400 a tonne, the EC will be able to afford to export 125,000 tonnes of surplus East German sugar within the current restraints of the regime.

Much depends on East German consumption, for which reliable figures do not exist. According to the International Sugar Organisation, annual consumption in East Germany between 1984 and 1988 was 680,000 tonnes of white sugar equivalent, while the West German industry's own estimates suggest a figure of 665,000 tonnes on average over the past five years.

Even taking the highest historic projection, there appears certain to be a much bigger shortfall between production and domestic consumption than the 125,000 tonnes "permitted" under the rules of the regime.

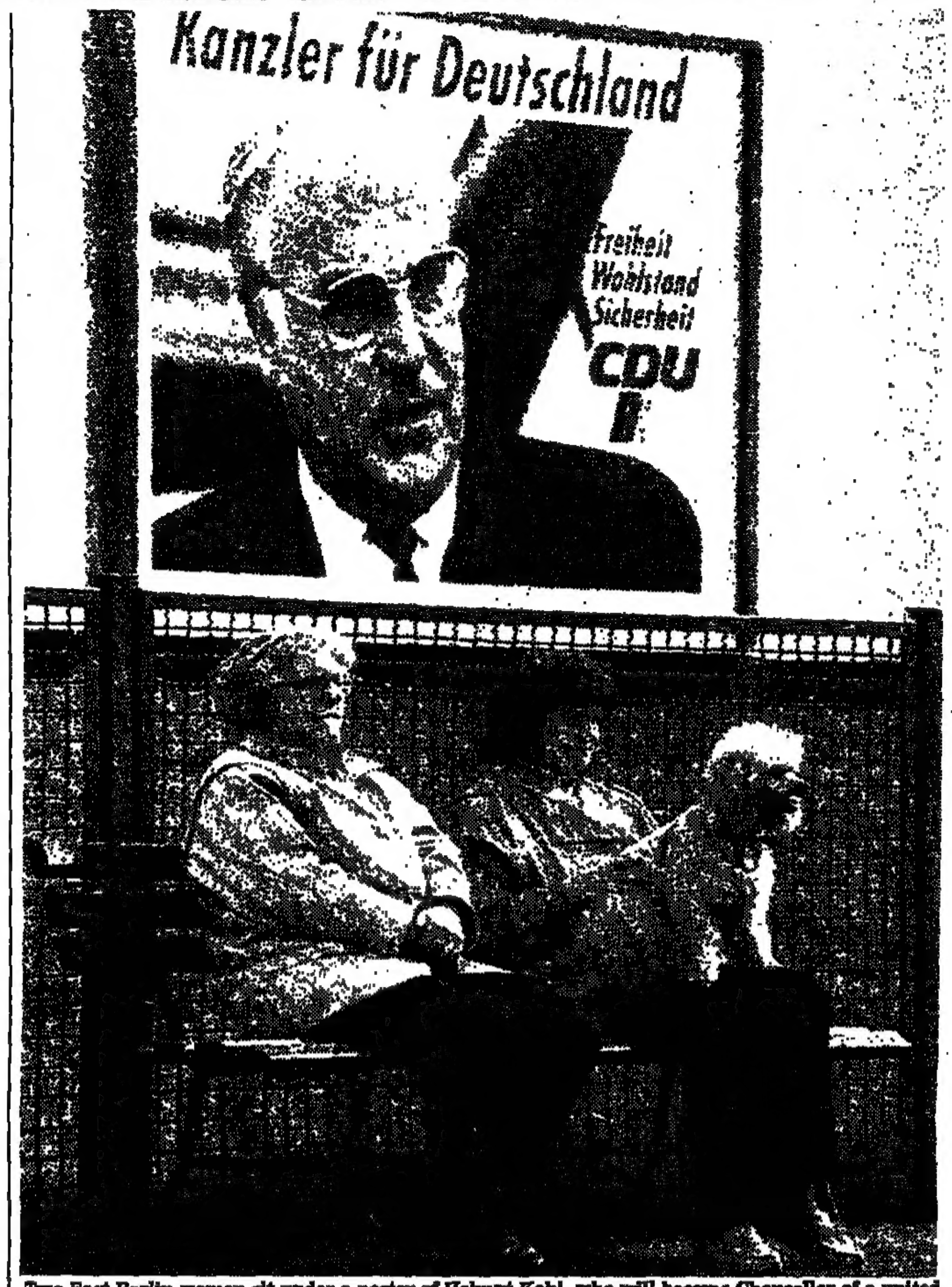
What is alarming and angering the industry and other member states is the knowledge that consumption in East Germany is falling sharply and is bound to plunge further as hitherto subsidised sugar prices move sharply up.

The Bonn government claims East Germany is simply getting its fair entitlement of quota, though many suspect that the powerful West German sugar industry will exploit the situation to grab a share of the extra production.

Mr Ignaz Kiechle, West German farm minister, is certainly showing no signs of backing down and is demanding that the figure be increased to 950,000 tonnes.

This is widely seen as a tactical ploy to make the 870,000 tonnes seem more respectable in face of almost total opposition from other member states, led by the UK, the Netherlands and Denmark.

France has also protested, and Spain seems determined to thwart East Germany on the grounds that it was treated badly at the time of accession in 1986. Belgium insists that other producers should not have to bear the cost.



Two East Berlin women sit under a poster of Helmut Kohl, who will become Chancellor of a united Germany on October 3. The sign reads "Chancellor for Germany".

Italian building group accuses French of cartel

By William Dawkins in Paris

FRENCH cartel authorities are examining controversial allegations by Condotte d'Acqua, the leading Italian construction group, that French competitors have illicitly conspired to push it out of the market.

The group has deposited a complaint with the Competition Council, which has been imposing increasingly tough fines for anti-competitive practices over the past year.

The allegations, which centre on the allocation of a motorway tunnel contract in Ariège, southern France, are also being studied by the Ministry of Finance's competition, consumer affairs and fraud division.

Among the main companies named are Autoroutes du Sud de la France (ASF), the agent responsible for letting the contract, and Dumez, the French construction group, both of which vigorously deny any wrongdoing. Mr Alain Vivet, managing director of ASF, said the Italian group's offer had not been accepted for "serious technical reasons".

The dispute comes a year after the Competition Council shocked the French construction industry by imposing record fines of FFr166m (£16.7m) on 80 road building and construction companies – though not Dumez – for illicit price-fixing.

This also throws a public spotlight onto competition in the French construction industry ahead of a debate in the French Senate, on October 4, on a proposed law to strengthen free competition for public contracts.

Strike brings trash piles to Paris streets

By William Dawkins

A STRIKE by Paris garbage truck drivers has forced the city authorities to call in private contractors over the weekend, at an estimated cost of FFr10m (£1m) a week.

The stoppage, which follows a strike by garbage collection teams last May, could become an embarrassment for Mr Jacques Chirac, the mayor of Paris and president of the RPR right-wing Gaullist party.

Mr Chirac's mayoral record is important to rebuilding his national political reputation, which two years ago took a battering with the Socialists' victory in the last presidential election. It has continued to suffer from divisions in the RPR leadership.

The strike, called by the Communist-led CGT trade union, involves a dispute over wages. About 90 per cent of the city's 600 garbage truck drivers have joined the action.

Rubbish has been piling up on city pavements since the action began early last week. Drivers have also blockaded three garbage incinerators.

Mr Chirac has declared the strike illegal and argues that he cannot change wage structures set by the national government.

Negotiations are continuing.

De Larosière affirms support for early EMU

By George Graham in Paris

THE Bank of France has reiterated its support for quick progress towards full economic and monetary union in Europe, despite hesitation by some other European central banks.

Mr Jacques de Larosière, governor of the French central bank, made this point in a speech to the association, Europe et Entreprises.

He called for a rapid move from Stage One of the Delors plan for monetary union, under which the EC would move towards better monetary co-ordination in the existing framework of the European Monetary System, to Stage Two, with introduction of a new EC treaty and creation of a European central bank system, and then to Stage Three, where European exchange rates would be irrevocably fixed and a single European currency issued.

Mr de Larosière has remained relatively silent in recent weeks, while some colleagues, notably Mr Karl Otto Pöhl, president of the West German Bundesbank, have voiced their belief that it will take many years to overcome technical obstacles in the way of Stage Three.

The French central bank governor said transitory measures should be worked out to take account of the diverse levels of development, productivity and investment needs in the EC, but that every member state should be involved.

He said that proposals for strengthening the Ecu, advanced by the UK, should be "studied with all the care necessary", but only in so far as they helped the process of monetary union and neither compromised nor delayed Stage Three of the Delors plan.

Basque separatist suspect arrested

FRENCH police yesterday arrested a suspected guerrilla leader of the Basque separatist movement Eta in an operation planned by French and Spanish security forces, Reuter reports from Madrid.

The Interior Ministry said the suspect was seized in the southern French resort of Biarritz. He was alleged to be one of the leaders of Eta (Basque Homeland and Freedom) and a commander of its armed groups fighting for an independent Basque homeland. The ministry described the capture as a very important arrest.

France acts over attacks on imported livestock

By William Dawkins in Paris

FRENCH justice authorities have launched 12 legal proceedings into attacks on trucks of imported meat and livestock, a move that should allay British fears that France was slow to clamp down on wrong-doers.

The development coincides with the opening of talks between Crédit Agricole, France's largest bank, and the Government on a possible increase in the agricultural bank's assistance for farmers pushed to the brink of financial collapse by falling meat prices.

The Government announced FFr1.2bn (£120m)-worth of aid last month, followed by the Crédit Agricole with a cheap loan package, estimated by the bank to be worth FFr200m, but criticised by the Government as inadequate.

Both moves are likely to help defuse the crisis, in which angry farmers have resorted to guerrilla warfare against cheap meat imports, especially British lamb and East German beef.

Violence has subsided over the past week and the rioters have attracted little public sympathy, yet the Government is still left with a political problem among its farmers, who make up 9 per cent of the population.

Three of the legal proceedings are requests from the justice authorities that local tribunals open prosecutions, one of which involves three farmers suspected of being involved in the burning of a British truckload of live lambs last month.

The remaining nine are preliminary inquiries, likely to lead to prosecutions, while a number of other proceedings are also in the pipeline, the Justice Ministry said.

Meanwhile, the Crédit Agricole has submitted to growing pressure from the Government to consider more farming aid, under threat of being stripped of a valuable privilege which the bank kept after being privatised by the last right-wing government.

Traditionally, the bank has had a monopoly over funds managed by country *notaires* – public solicitors who handle wills and property transactions - a business which brings it FFr17bn of deposits, on which the bank pays just 1 per cent interest.

Urban *notaires* make their deposits with the state financial body, the Caisse des Dépôts et Consignations.

The Government has always wanted to remove this advantage from Crédit Agricole, to make it compete on normal terms, but the bank argues that it needs cheap funds to support the low interest loans it makes to farmers.

Crédit Agricole is not thought likely to win the battle, though it may get a say in the terms under which the *notaires'* business is removed, if the bank satisfies the Government on farm aid.

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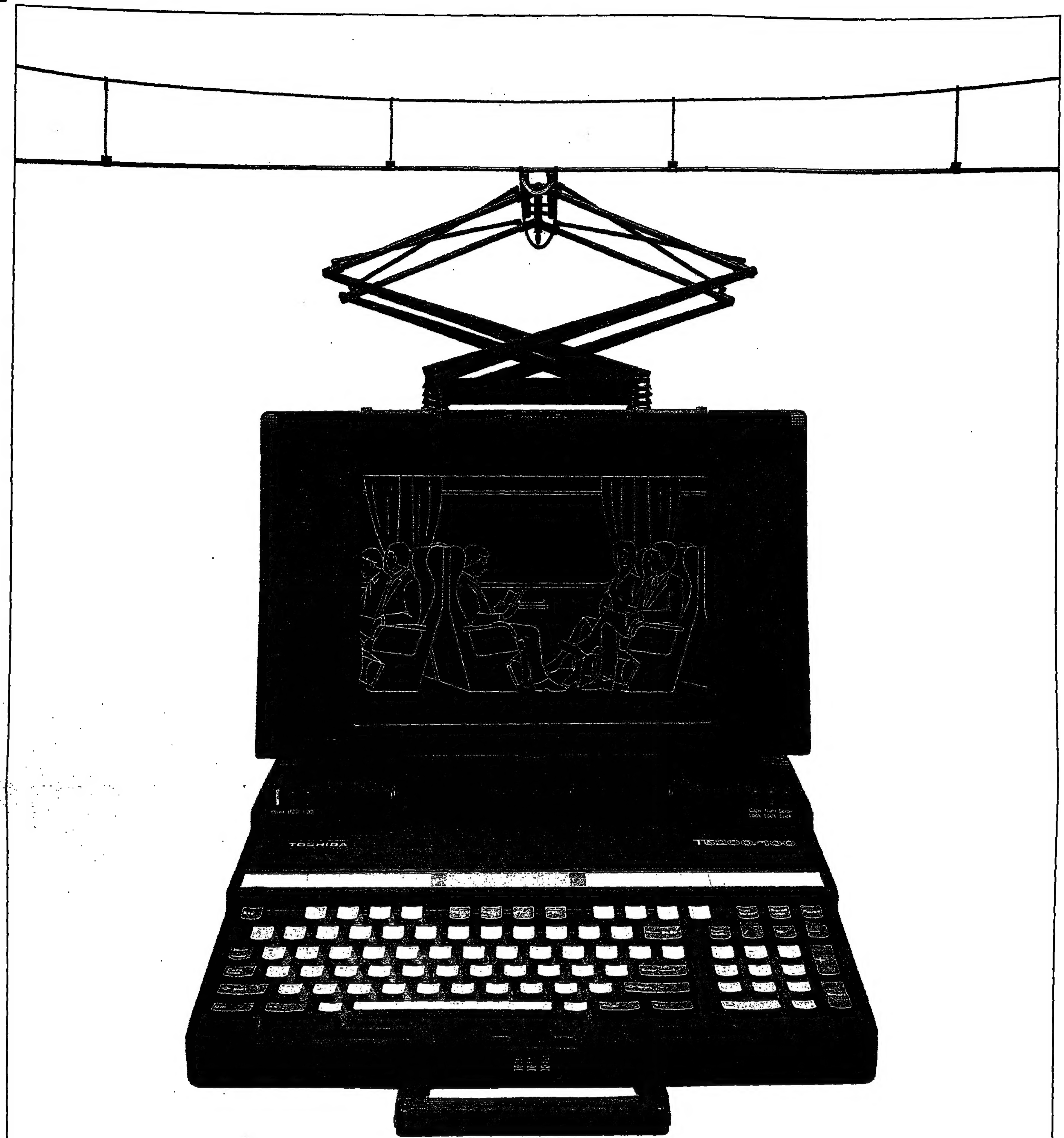

De Klerk to assure Bush of 'irreversible' changes

By **Lionel Barber** in Washington and **Philip Gawith** in Johannesburg

President De Klerk (left) and his wife Marike meet US Secretary of State James Baker and his wife Susan

PRESIDENT F.W. de Klerk yesterday arrived in the US, the first visit by a South African head of state since Jan Smuts visited the White House 43 years ago.

The trip represents a big step forward in the country's gradual political rehabilitation following the reform process embarked upon by Mr de Klerk on taking office last year.

This theme was taken up by Mr de Klerk on his arrival at Andrews Air Force base. "South Africa has embarked on a great journey," he said. "It is a journey toward full democracy at home, and abroad, full participation in the family of nations."

Later in the day, he invoked Martin Luther King as he pledged that his government was committed irreversibly to dismantling apartheid and to sharing power with the black majority in South Africa.

The focus of Mr de Klerk's three-day trip is his meeting today with President George Bush. Mr de Klerk has said he wants to tell Mr Bush of the "irreversible momentum" towards a new constitution and the process of change in South Africa.

However Mr de Klerk made clear that he was not bringing a "shopping list" to the US including demands for lifting economic sanctions.

Mr James Baker, US Secretary of State, said everyone in the US should be encouraging all sides in South Africa to continue negotiations.

The administration would like to lift sanctions, but does not want to risk a political battle with Congress until further progress is made in line with the conditions set down by the 1986 Comprehensive Anti-Apartheid Act.

Mr Bush, however, has to report to Congress on October 2 concerning progress South Africa has made in meeting the key provisions of the CAAA and will be anxious to confirm the factual position.

By common consent the main steps remaining are the lifting of the State of Emergency in Natal, the scrapping of the Group Areas and Population Registration Acts and the start of negotiations.

The other major aim of the trip will be to allow the two presidents to establish a personal rapport, and to give President de Klerk the opportunity to speak to the American public.

At home Mr Nelson Mandela, African National Congress (ANC) deputy president, continued his criticism of recent government steps taken to address the violence, but reaffirmed the ANC's commitment to the negotiation process. "Only when the ANC and the government are talking to each other will we have peace in this country," Mr Mandela told a gathering at the launch of a new ANC branch in Kwathema. "We are compelled to work together through thick and thin."

Anger at death of Israel soldier

By **Hugh Carnegy** in Jerusalem

PALESTINIANS travelling to work yesterday were attacked by angry Israelis, and right-wing politicians called for retribution, on the first working day since the stoning and burning to death of an Israeli soldier in the occupied Gaza Strip.

Parliament has been recalled on Wednesday for a special debate on the killing, which took place last week on the Jewish New Year holiday. It was the first death of a soldier in the occupied territories since last November.

A recent army policy of maintaining a lower profile in West Bank and Gaza trouble spots, which has helped produce sharply lower casualty tolls in the Palestinian uprising, is likely to come under question during the debate.

Yesterday, at a cabinet meeting, Mr Rafael Eitan, Agriculture Minister and an extreme right-wing former chief of staff, criticised Mr Moshe Arens, the Defence Minister, and called for draconian collective punishment for the occupants of Bureij refugee camp, where the killing took place.

The reserve soldier was heading for duty at an army post in his private car when he apparently took a wrong turn and was attacked. He hit a donkey cart, injuring two children, as he tried to escape and the enraged mob stoned him unconscious and set fire to his vehicle.

It was a graphic illustration that the *intifada* (uprising), now more than 2½ years old, continues to fester, despite a recent decline in violence. Nearly 700 Palestinians have been killed by Israelis and 50 Jews have been killed by Palestinians in the conflict. A further 240 Palestinians have been killed by fellow Arabs.

Mr Eitan said all houses around the scene should be flattened by the army as punishment – a policy likely to be used at least against the dwellings of prime suspects – and those responsible deported.

Peru cuts import tariffs sharply

THE Peruvian government has announced sharp cuts in import tariffs. Sally Bowen writes from Lima.

Imports previously subject to combined tariffs and taxes of up to 200 per cent will now incur a maximum tariff of 50 per cent.

The ruling establishes three tariff levels of 15, 25 and 50 per cent. Foodstuffs and medicines will come in at the lowest level, with inputs and "intermediate" goods in the middle bracket.

Suicide provokes protests in India

Violent demonstrations in northern India gathered momentum over the weekend after a student took his life in protest against Prime Minister V. P. Singh's job reservation programme, David Housego reports from New Delhi.

Sushil Kumar, a 16-year-old schoolboy, poisoned himself at Kurukshetra, a holy Hindu town in Haryana province, and in a suicide note held the Prime Minister responsible for his death.

Lahore court summons Bhutto

A special court in Lahore yesterday issued a notice to Ms Benazir Bhutto, the ousted Prime Minister of Pakistan, requiring her to appear on October 2 to face proceedings alleging misconduct during her 20 months in office, writes Farhan Bokhari in Karachi.

Ms Bhutto's government was dismissed on August 6 by President Ghulam Haq Khan, on allegations of widespread corruption, denied by Ms Bhutto.

Managua plans spending cuts

The Nicaraguan Government is to axe jobs and spending in the public sector, following its failure to stabilise the hyper-inflation-prone economy with heterodox adjustment policies during its first five months in office, writes Tim Coone in Managua.

Farmers' co-operative lends Y20bn to struggling affiliate

Interest rates hit Japanese banks

By **Stefan Wagstyl** in Tokyo

NORINCHUKIN, the Japanese farmers' national co-operative bank, is planning a low-interest loan of about Y20bn (£77m) to support a provincial affiliate which is struggling to cope with mounting bad debts.

The move is the strongest indication so far of the damaging impact of rising interest rates on Japanese financial institutions.

It follows news last week that *shinkin*, small co-operative banks, are proposing to double the size of a national mutual rescue fund to Y300bn.

In addition, Itoman, a medium-sized trading company, disclosed plans to sell land to cut its property borrowings, estimated at Y850bn, though it denied it was under financial pressure.

The Bank of Japan, which has been pushing up interest rates for 18 months to ward off inflation, wants to see a decline in the growth of bank lending, particularly in property loans. But in the wake of this year's 40 per cent fall in equity prices, the central bank is also concerned lest its actions precipitate a rapid decline in land values.

Norinchukin's planned move is designed to deal with a long-standing problem in Kagoshima, a rural prefecture in western Japan, where the prefectural federation of farmers' co-operatives took over the loan books of several local co-operatives after they ran into financial difficulties three years ago.

The prefectural federation worked out plans to trade its way out of the bad loans over time but its programme was upset by the recent rise in interest rates. It will probably use the low-interest funds from Norinchukin to generate extra profits by placing them on deposit at (higher) money market rates.

Norinchukin said the Kagoshima case was unprecedented. Its action plan was not a rescue but a support measure. Norinchukin said rising interest rates put extra pressure on bank managers to perform well.

The farmers' co-operative movement is in the throes of a long-running rationalisation, designed to make the co-operatives more efficient. They have to adjust to financial deregulation, which is exposing them to increased competition from big banks and others. The total number of co-operatives fell by 211 to 3,698 in the year to March, mainly through mergers. It is planned to decline further to about 1,000 early next century.

The total number of co-operatives fell by 211 to 3,698 in the year to March, mainly through mergers.

Shinkin co-operative banks face similar pressures from financial deregulation. The support fund which the movement wants to expand pays out low-interest loans to members which are in financial trouble.

Itoman has more than doubled its bank borrowings in the last five years to Y1,095bn at the end of March 1990 and invested much of the funds in property. Nikkei Shimbun, Japan's business daily, estimated its property loans would stand at Y850bn when it closed its books for a half-year report at the end of this month.

Itoman said yesterday it had no problem coping with higher interest rates. It said it was selling land and cutting debt in order to comply with a guideline set by the finance ministry this year intended to curb property-related borrowings. According to this guideline, banks are required to ensure that the growth rate of a client company's property loans does not exceed the growth rate of its total borrowings.

Some Itoman executives believe the finance ministry wants to make a public example of their company. A ministry official denied this, saying that it was not the ministry but Itoman's bank which was responsible for putting the guidelines into effect. Sumitomo Bank, Itoman's main bank, said it was co-operating in Itoman's property disposal programme. It was for Itoman to say why it was selling property, said Sumitomo.

Itoman, an old-established Osaka-based trading company specialising in textiles, had consolidated sales of Y877bn in the year to March and profits of Y15.6bn pre-tax. It belongs to a family of companies headed by Sumitomo Bank.

The company's ratio of equity to total assets stood at just 14 per cent at the end of March. But low ratios are normal for Japanese trading companies which use borrowings to fund their stock-in-trade.

Moreover, Itoman's ratio has actually improved during the time it expanded its borrowings - from under 7 per cent in 1986. However, the proportion of property loans has increased greatly. It may find it difficult to sell property as prices are stagnating, and in some places declining, following a period of soaring increases.

N Korea to receive mission from Tokyo

By **Stefan Wagstyl**

JAPAN'S ruling Liberal Democratic Party was due today to send a mission to North Korea, a move which could lead to a thaw in the ice-cold relations between the two countries.

A significant improvement in ties would provide new evidence that, with the apparent end of the Cold War, Pyongyang is preparing to end its isolation from the non-communist world. The Japanese mission coincides with talks between North and South Korea over establishing official contacts for the first time since the end of the Korean War.

Previous attempts by Tokyo to establish an official dialogue were spurned by Pyongyang, which nevertheless retained an informal channel of communication through regular visits from members of the opposition Japan Socialist Party.

The LDP delegation is being led by Mr Shin Kanemaru, a former deputy prime minister and one of the most powerful men in the party. Top of the agenda for his five-day visit is trying to secure the release of two Japanese seamen held prisoner in North Korea since 1983, when they were seized after their ship had been used by a North Korean soldier to escape to Japan. Tokyo regards the seamen's release as a *sine qua non* of improved relations.

Japan also hopes North Korea will agree to the setting up of non-government liaison offices in Tokyo and Pyongyang as a first step towards the eventual establishment of full diplomatic relations in a few years.

North Korea has always rejected any suggestion of government-to-government contacts with Japan, as it does with any country which recognises South Korea. It has insisted that officials accompanying Mr Kanemaru are called "clerks".

However, diplomats in Tokyo believe North Korea is becoming more flexible in response to South Korea's success in improving relations with both Peking and Moscow, formerly Pyongyang's biggest backers.

Diplomats believe Pyongyang has hopes of eventually securing Japanese aid for its ailing economy. It also wants compensation for suffering inflicted by Japan during colonial rule.

Japan will be anxious to avoid offending Seoul in any settlement of claims with Pyongyang. Aside from money, the wording of any apology would be a difficult matter.

Whatever the outcome of Mr Kanemaru's visit, Japanese companies do not expect any immediate upswing in business with North Korea. Two-way trade totalled Y68.3bn (£264m) last year – half the figure for 1980. Moreover, 80 per cent is estimated to be carried out under the auspices of the Association of Korean Residents in Japan, a pro-Pyongyang organisation which oversees the collection of large private donations for North Korea.

Japanese trading companies say that Y80bn of unpaid trade debts would have to be repaid before normal trade could resume.

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LEGAL COLUMN

Giving advice direct to the public could cause loss of status

Redefining the barrister's role

By Robert Rice, Legal Correspondent

WHEN IS a barrister not a barrister? The answer ought to be straightforward enough. In reality, however, it has become increasingly difficult to draw a line between the rights and professional obligations of barristers employed in commerce and industry and those of independent barristers practising at the Bar.

The Bar Council was faced with the embarrassing prospect of having to disbar hundreds of barristers who are now working for solicitors and accountancy firms and offering advice directly to their employers' clients so it set up a working party under Mr Justice Mummery.

The purpose of the working party was to examine the present status of employed barristers and their relationship with barristers in independent practice and make recommendations for change.

The Mummery Report, published last week, tackled the problem by dividing barristers into three broad categories with different rights and obligations: barristers in independent practice; employed barristers; and non-practising barristers in employment.

The report also reaffirmed that practising barristers must not provide legal services direct to the public.

In the short term it will save the Bar Council from having to disbar as many as 600 or 700 barristers.

However,set against the current background of deregulation of the profession and the sweeping away of restrictive practices, in the longer term the report's recommendations may not go far enough towards meeting the aspirations of those barristers who do not practise independently at the Bar but who wish to be free to exercise in whatever way they choose.

The central question facing the Mummery working party was to what extent the current restrictions on employed barristers' rights can be justified. These limits are on rights of audience; rights to conduct litigation; rights to instruct barristers in independent practice; and rights to supply any other legal services.

There was also the issue of whether barristers should be allowed to enter into multi-disciplinary partnerships with other professionals, and whether employed barristers should be allowed to supply legal services to their employers' clients.

The working party also had to consider whether the current restrictions and any proposals it made for change were valid and enforceable in law. Even if they were, the working party had to consider the Government's policy commitment towards eliminating restrictive trade practices, even within the professions, which it outlined in a white paper published last year.

Although the Bar's code of conduct provides different rules for practising barristers and employed barristers, some aspects of it apply to both categories, in particular the requirement that barristers should not provide legal services direct to the public.

If they act outside the rules they risk being disbarred

In the case of employed barristers this has in the past had the effect of limiting the work they can do in advising their employers.

Recently, what the Bar describes as a "small but increasing number" of barristers have been committing a disciplinary offence for which they can be disbarred by providing legal services direct to the public.

Most of the offenders are barristers working for professional firms of accountants, surveyors and foreign lawyers practising in the UK.

Barristers employed by accountants are the worst offenders.

The Mummery Report notes that it is often said to be difficult and artificial to draw a line between employed barristers providing advice to their employers and providing advice to the employers' clients.

But in practice, it says, no real difficulty exists.

One large firm of City accountants told the working party that they employed barristers to give tax advice to their clients and for no other purpose.

Barristers providing advice to their employers' clients have three options under the existing rules.

They can either stop providing legal services to their employers' clients; cease to be employed by the firm and comply with the rules applicable to barristers in independent practice; or cease to be a barrister altogether, get themselves voluntarily disbarred and become a legal consultant to their employer.

If they continue to act outside the rules they risk being disbarred against their wishes.

The Mummery solution to balancing the different demands of independent practising barristers and employed barristers is to allow the minimum relaxation in the restrictions governing employed barristers which it thinks it can get away.

This will have to be done without falling foul of either the new professional regime which will be ushered in by the Courts and Legal Services Bill or the Government's restrictive trade practices policy.

Thus the existing prohibition in the Bar's code of conduct on barristers entering into multi-disciplinary partnerships is to be retained.

The Mummery Report argues along the Bar's official line that the public interest in maintaining the ban far outweighs any competing private or public interest in lifting it.

The Bar will thus retain its ban on multi-disciplinary partnerships at a time when the solicitors' profession has just been served with notice by Sir Gordon Borrie, Director-General of Fair Trading, that he is not prepared to allow the Law Society to keep its ban on such partnerships for its members.

The Mummery Report also recommends that there should be no extension to the rights of audience of employed barristers.

To allow employed barristers to provide advocacy services to anyone other than their employers would permit barristers to provide advocacy services to the public generally, without being self-employed, sole practitioners or consultants.

Indeed, the report says there is a risk that the extension of rights of audience of employed barristers would be detrimental to the quality and cost of the service to the public; on the degree of client choice; and on the proper and efficient administration of justice.

During the passage of the Courts and Legal Services Bill, the Bar used the same arguments against giving solicitors extended rights of audience in the higher courts. This recommendation is less likely to be acceptable to the Government because it will prevent all employed barristers in the Crown Prosecution Service from gaining rights of audience in Crown Court trials. It would also result in the ridiculous situation of employed barristers having more restricted rights to appear as advocates than many solicitors.

Having ensured as best it can the protection of the practising Bar's position, the Mummery working party turned its attention to ways of extricating the Bar Council from having to disbar employed barristers who offer advice directly or indirectly to their employer's clients.

Thus it created three categories of barristers:

- Independent practising barristers will continue to receive instructions only from solicitors and other professionals.
- Employed barristers will be able to receive instructions from their employers but not from their employers' clients.
- Only non-practising barristers in employment will be able to provide legal services to their employers' clients but only if they do not hold themselves out as practising barristers.

This looks like little more than a device. The Bar will not be faced with disbarring those employed barristers who give advice directly to their employers' clients if they place themselves in the third category. In other words, provided they no longer regard themselves as barristers, it will not be necessary to disbar them.

It remains to be seen whether the Mummery Report will satisfy either the employed barristers concerned or the Government.

UK NEWS

Confidence about demand volumes lowest since 1982

By Peter Marsh, Economics Staff

CONFIDENCE among UK manufacturing companies about the volume of demand in the British economy is at its lowest level for eight years, a survey by the Confederation of British Industry (CBI) shows.

The CBI's audit of trends in manufacturing industry, published today, provides some of the strongest evidence yet of the depth of the slowdown in the UK economy.

Mr John Banham, director general of the CBI, said yesterday on BBC Radio's The World This Weekend that Mr John Major, the Chancellor, should cut interest rates soon to limit the damage inflicted on manufacturing businesses. "We have to ensure that the recession is not any deeper than it needs to be," he said.

In the past few weeks, British industry has shown increasing signs of ebbing confidence and lower profits. At the same time, unemployment is climbing.

Mr David Wigglesworth, chairman of the CBI's economic situation committee, said he recognised the need for high interest rates to squeeze demand and reduce Britain's inflation rate, which is running at 10.6 per cent a year. "But this survey confirms that demand is weakening rapidly and that high interest rates have done their job," he said.

The CBI survey – which shows that nearly one in three manufacturers expect overall output levels to fall over the next four months – comes at the start of what could be a difficult week for the Government. Today it is expected to announce a current-account deficit for August of about £1.5bn, which would put Britain on course for an overall current-account deficit for 1990-91 of nearly £20bn.

The pound may also come under new pressure on foreign-exchange markets. Last week, speculation about the timing of the UK's entry into the exchange rate mechanism of the European Monetary System, combined with nervousness about the UK economy, prompted a slide in sterling.

Today's CBI survey is based on information collected over the past month from 1,405 companies. Together these account for about half the jobs in the UK manufacturing sector.

Thirty per cent of the companies said their output would fall in the next four months, compared with the 20 per cent that thought it would increase. The negative balance of 10 per cent compares with a negative balance of 3 per cent in the CBI's August survey and with small positive balances for most of this year and 1989.

The last time UK industrialists had such a gloomy view of future demand levels, as measured by CBI surveys, was in December 1982.

The survey also reports deteriorating order books and reduced expectations of price increases. Forty nine per cent of companies reported total order books to be below normal, with only 10 per cent saying they were above normal.

Illegal wage payments widespread, says report

By Lisa Wood, Labour Staff

ILLEGAL underpayment of wages is widespread in the UK, according to a report published jointly today by the Low Pay Unit and the National Union of Civil and Public Servants.

The report says that 30 per cent of employers visited last year by wages inspectors, who police wages councils which set minimum pay rates for about 2.5m workers, were underpaying workers. Some employees were being paid as little as £1-an-hour.

It also cites cuts in the number of wages inspectors as making it more difficult for them to use their wide range of powers to protect wages council workers. Since 1979 the inspectorate has been cut by 60 per cent – a loss of 106 inspectors.

The Government considered abolishing wages councils, a plan which was shelved earlier this year.

The report said the Government had now set about rendering the wages councils ineffective by cutting the number of inspectors.

Visits by the wages inspectorate revealed "widespread flouting" of the law, said the report, including:

- Forty six per cent of companies failed to post up wages councils notices.
- More than one third of companies visited were failing to keep adequate records of hours worked by staff.

Mr Chris Pond, director of the Low Pay Unit, said that prosecution of offenders was being hampered by a lack of resources at the inspectorate coupled with a lack of support from the Department of Employment, which has responsibility for the inspectorate.

Last year of the 5,525 companies caught illegally underpaying only eight were prosecuted.

The report recommends several areas for immediate action including a public information campaign on wages councils and more wages councils.

- *Crime Without Punishment from Low Pay Unit, 9 Upper Berkeley Street, London W1.*

Pay rises of over 10% seen likely in autumn

By John Gapper, Labour Editor

PRESSURE from workers and unions for pay increases of 10 per cent or more will rise this autumn as the economy hovers between stagflation and recession, according to a study of pay bargaining prospects published yesterday.

The pay research group Incomes Data Services suggests that deals already agreed above 10 per cent for this year and the early half of 1991 will go some way towards undermining an "unstated 10 per cent barrier" this summer.

IDS says that downward and upward pressures on pay may start to exist alongside each other, with settlements rising at the same time as unemployment increases and with a return to short-time working.

The car industry pay round in the next two months is likely to reinforce a 10 per cent target despite warnings from Mr Michael Howard, Employment Secretary, and other ministers that rises should be offset by productivity increases.

IDS says there has been a stronger consistency of pay rises above the "going range" in various industrial sectors than had been expected. The labour market has left companies little alternative but to match others.

It says comparability pressures are likely to be especially severe in the car industry, construction and in retail. Deals in the sectors will fall between now and next spring against a background of high inflation.

Inflation at a higher level than forecast has already triggered a rise of 12.4 per cent at Vauxhall and is likely to give 32,000 Ford workers rises of about 12.5 per cent.

ITALICS: Pay Prospects 1990-91; IDS Report 577; IDS, 193 St John Street, London EC1V 4LS; By subscription.

$INS6; Line PCDIRECT01 From Story '#115681'. Job 422.

Construction union plans job agency

By Diane Summers, Labour Staff

PLANS FOR a nationwide construction employment agency intended to lift training standards, overhaul pay structures and generate £1m-a-year for the building union Ucatt, have been approved in principle by the union's executive.

A document detailing the proposals argues that revenue from the agency would enable the union to resist merger. At the same time, £3m-a-year after three years would be made available from the project to continue the work of the privately-run training group, the Builders Training Association.

BTA currently relies on diminishing government funding and grants from the Construction Industry Training Board. The future of CITB itself is uncertain, and BTA, therefore, is seeking alternative sources of cash to fund its activities.

CONSTRUCTION CONTRACTS

Holiday resort in China

HOPEWELL COSTAIN, 50 per cent owned by Costain Group, has signed a management contract to build, for Wealth Earth Development, an international holiday resort in the Zhuhai special economic zone of the People's Republic of China.

The resort, valued at HK$1bn (£67.6m), will be located to the east of Zhuhai along the coast of Sha King and Tong Ka. Construction of this 437,000 sq metre project will begin this month and will progress in two stages with recreational facilities being completed by June 1991 and the remainder to be completed by June 1992.

Developed on the basis of a time-share operation, the resort will have 520 detached bungalows, 326 semi-detached houses and several low rise hotels providing 1,412 rooms. Recreational facilities will include a full range of sports activities, a waterworld and a yacht club. Adjacent to the resort is an international golf course, amusement park and beach.

"Sung City" will be a feature inside the resort with restaurants and inns constructed in the style of the Sung dynasty. Historically, Zhuhai was famous as a garden city and the resort will be designed as a garden blending traditional and modern styles.

Sterling Hotel development in Derby

L & M Project Management (part of London & Metropolitan) has appointed WILLETS as main contractors for BAA's new Sterling Hotel at Market Place, in the centre of Derby. The construction value of the contract will be £17.2m.

It will be the first Sterling Hotel to be built in the UK at a non-airport location by BAA Hotels.

The 255 bedroom hotel, on seven floors, will have a gross floor area of 14,900 sq metres (about 160,000 sq ft). A 70 seater restaurant, 120 seat brasserie and two bars will be provided, together with a large function room and seven smaller meeting rooms. A conference/business centre will offer residents and guests extensive secretarial and business support services.

A special feature will be a 600 sq metre leisure and health club facility, on two floors, which will include a swimming pool, jacuzzi, gymnasium, sauna and steam room. Externally, the hotel will be constructed in traditional style, with pitched roofs, and will be clad in red brickwork.

L & M Project Management was appointed to manage the contract on behalf of BAA Hotels in June 1989. Since then LMPM's team of designers has worked up a detailed specification for the development, and has been actively involved at every stage of the tender process. Willets will start on site within a few weeks, and the hotel will open in summer 1992.

Newcastle Business Park office project

SHEPHERD CONSTRUCTION has secured an £8.8m contract to build the AA Insurance Services office development on Newcastle Business Park, Newcastle upon Tyne.

Shepherd's north east office is carrying out the project for developer Dysart Developments (Tyne and Wear). When the project is completed, the contract will provide 114,000 nett lettable sq ft of high quality offices for the Automobile Association's insurance services operations, together with extensive car parking.

The design incorporates steel frame construction with facing brickwork and simulated slate pitched roofs. Air-conditioning and raised computer flooring are also included in the high grade specifications. Completion is scheduled for July 1991.

Newcastle Business Park is a joint venture between Dysart Developments (Tyne & Wear) and Tyne & Wear Development Corporation.

£17m orders for Wates Construction

WATES CONSTRUCTION (LONDON) has secured orders valued in excess of £17m. In the City, at 64-66 Cheapside and No. 1 Crown Court EC2, Wates has secured a £10m plus contract from Sun Alliance Group Properties to construct an office development on eight floors behind the retained Cheapside facade.

Grosvenor Square Properties has awarded the company a contract, valued at £3m, to construct a seven-storey building containing offices, retail units and residential accommodation at 406-408 Strand, London WC2.

At 1-6 Barge House Street SE1, Wates has started work on a scheme to provide six three and four-storey office units worth around £4m for Aquis Estates.

Office buildings in Milton Keynes

Building contracts worth around £12m were awarded to six of the WILLMOTT DIXON companies last month.

The largest, valued at around £5m, has been awarded to Willmott Dixon Design & Build for the design and construction of two office buildings in Milton Keynes. The contract is being carried out for the Linford Wood Developments company.

Willmott Dixon Housing has started work on a £2.2m development of houses and flats, for Notting Hill Commercial Properties, in Hendon.

A £2m contract for a further 19 office units at Chiltern Commerce Centre in Chesham has been awarded to Willmott Dixon Chilterns by Shotmit.

Willmott Dixon Midlands has been awarded a £1.8m contract to build a meat production unit for Meadow Farm (UK) at Osmaston Park industrial estate, Derby.

Another £1.8m contract, has been awarded to Willmott Dixon London. It involves a major refurbishment of two floors of Empire House in St Martins-Le-Grand, EC1 for St Martins Property Investment.

IN BRIEF...

TAYLOR WOODROW DESIGN BUILD has been awarded a £13m contract by Heathrow Airport to undertake a major extension to terminal four. This will house 20 new British Airways check-in desks as well as additional office space. Work will range from service diversions and foundations to internal finishings. Completion is scheduled for next summer.

* * *

Office and industrial developments are included in £18.5m worth of contracts awarded to SDC CONSTRUCTION GROUP, Bedford. Ironcliffe Estates is extending and refurbishing its business park at Wimbledon (£4.1m) and Austin Rover is spending £2.3m to provide a parts receiving centre at Longbridge. Orders include offices for Mid Beds District Council (£2.1m) and the Trenchewood Group at Tottenham (£1m), a mix of office and industrial for Prostar UK at Hitchin (£2.1m) and A.J. Mucklow at Bedford (£1.8m) and a warehouse for Weetabix at Kettering (£1.4m).

* * *

HIGGS AND HILL MIDLANDS has a management contract worth £4.5m for a six-storey hotel in Birmingham for Arcade (Midlands) Properties, part of the Pullman International Hotels Group.The project will provide 151 bedrooms together with shop units.

* * *

WARINGS CONTRACTORS, Portsmouth, has started work on three contracts totalling £7m.

Pharmaceutical manufacturer John Wyeth is replacing a facility at Havant with a 24,000 sq ft laboratory to provide quality control and assurance facilities. Completion is scheduled for May 1991.

In Guildford, the company has a contract, worth £2.9m, for 10 light industrial units totalling 80,000 sq ft for Energyhold.

* * *

R MANSELL has been awarded a £3.2m contract by Vestey Estates for construction of an office block in St. John's Lane, London EC1.

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UK NEWS

Serious Fraud Office head refutes criticism of courts

By Robert Rice, Legal Correspondent

THE GUINNESS trial has demonstrated that the UK now has an effective system for tackling serious fraud, the new director of the Serious Fraud Office claimed yesterday.

Speaking at the Bar Conference in London, Mrs Barbara Mills QC, who was a member of the Guinness prosecution team before her appointment as SFO director, said the criticism levelled at the legal system by the Roskill fraud trials committee had been answered.

She reported that in the 2¼ years since the SFO was set up it had prosecuted 39 cases involving 81 defendants. Fifty-nine had been convicted.

The sums involved in these trials totalled £200m. The total "sums at risk" in cases under investigation or awaiting trial was £1.16bn.

"It can no longer be said that the legal system cannot cope with prosecuting serious frauds effectively and efficiently," she said.

Much of the SFO's work was highly international, she added. Continued success in tackling serious fraud was dependent on international co-operation and reciprocity. The UK had given new powers to the Trade and Industry Secretary under the 1989 Companies Act to help overseas regulatory authorities in their investigations.

The Criminal Justice (International Co-operation) Act 1990, which comes into force in December, will also give the SFO far-reaching powers to assist other countries, even where criminal proceedings have not been started, she said.

The SFO will be able to ask for a court to be nominated to gather evidence requested by a foreign state. It will also be able to transfer prisoners abroad to give evidence, and to search and seize material at the request of another country.

The fight against fraud was vital as fraudulent conduct struck at the root of commercial practice and at the trust which people put in the integrity of markets and financial institutions, Mrs Mills said.

She hoped the effective prosecution of fraud by the SFO would be a powerful deterrent to further white-collar crime.

Barbara Mills: SFO's battle against fraud is vital

Bar chief urges greater access to justice

By Robert Rice

THE Government's reforms of the legal profession had been a great diversion from the key issue of improving access to justice, Mr Peter Cresswell, chairman of the Bar, said yesterday.

Improved access to justice would come only by extending legal aid to cover more people, he said.

At the moment there was a large section of the community which could not afford to go to the law because it fell outside the eligibility limits for legal aid.

Lord Mackay, the Lord Chancellor, was genuinely concerned about access to justice, Mr Cresswell said. The problem was that the Treasury wanted to put a cap on legal aid.

Mr Cresswell was responding to hints by Lord Mackay at the Bar Conference that the Government might have to consider a cut in the legal aid budget unless the profession took steps to curb legal aid costs.

The Lord Chancellor said that legal aid spending could not continue to rise at its present rate. Gross expenditure on legal aid had doubled over the last five years to £715m, an increase which outstripped inflation and was proportionately greater than the increase in public expenditure on health and social security.

"Justice is priceless, but it must not be too pricey if it is to be accessible. To be accessible it must be affordable to the individual both as a taxpayer and litigant," Lord Mackay said.

"Resources are finite; and legal aid is not and cannot be an unconditional blank cheque from the taxpayer."

The Lord Chancellor made it clear he was not saying there would be cuts nor was he promising there would be no cuts. However, huge additional sums for legal aid were unlikely in the future. Justice had to be achieved within realistic parameters.

Legal Column, Page 14

Spending by executives shows 24% increase

By David Churchill, Leisure Industries Correspondent

EXECUTIVE spending on hotels, restaurants and travel is running sharply ahead of last year in spite of cost-cutting pressures on corporate expenditure, according to figures released yesterday by American Express.

The company said that spending by its 200,000 corporate cardholding members – charge cards issued by companies for business travel and entertaining expenses – was running 24 per cent higher than last year.

"While consumer spending may be down, expense account business is booming," said Mr David Cornthwaite, a vice-president of American Express in London, yesterday.

The American Express figures show that the hotel and travel sectors are particularly buoyant for the sort of spending normally associated with corporate cardholders.

British companies are estimated to spend more than £20bn a year on business travel and entertaining.

The business travel figures from American Express will help investor confidence in hotels and related travel stocks. There had been fears that the onset of recession in the UK would dampen business travel expenditure.

"There is no doubt that increasing costs and falling consumer spending are hitting businesses hard but the British business executive does not seem totally disheartened and has realistic expectations of what can be achieved," said Mr Cornthwaite.

American Express also published details yesterday of its latest survey of business confidence among companies in the service industries. The survey of over 800 companies in the travel, hotel, catering and retail sectors, was carried out in the week after the Iraqi invasion of Kuwait.

In the April to June quarter only one in every five reported turnover increases ahead of inflation. But 40 per cent of those surveyed were expecting a pick-up in business before the end of the year.

SNP to lure votes from Labour

By James Buxton, Scottish Correspondent

THE SCOTTISH National Party will step up its campaign to lure voters away from Labour in its heartland in the central belt of Scotland after the decisive victory at the weekend of Mr Alex Salmond in the election for the leadership of the SNP.

Mr Salmond, MP for Banff and Buchan, told the party's conference in Perth that he was a left-wing socialist.

He said: "Labour may win the yuppie votes in the south of England; we are going to win the battle for the hearts and minds of the Scottish people."

Mr Salmond, who is 35, defeated Mrs Margaret Ewing, the MP for Moray, his rival for the party's national convenership, by 486 votes to 186.

Mr Salmond's victory over Mrs Ewing is a reverse for many of the consensus-minded senior members of the SNP, who were conscious of the fact that much of the party's support is in north-east Scotland, where Labour is generally weak.

It was also a setback for Mr Jim Sillars, MP for Glasgow Govan, whose associates, also on the left wing, were defeated in the election for party posts.

The leadership election was caused by Mr Gordon Wilson's retirement from the post after 11 years.

Mr Salmond was an economist with The Royal Bank of Scotland before becoming an MP.

The SNP, which has 22 per cent support in the opinion polls, needs to win the votes of Labour supporters in the central belt of Scotland if it is gain more parliamentary seats than the four it already holds.

The first big test of Mr Salmond's leadership will come at the forthcoming by-election in Paisley North, caused by the death this month of the Labour MP, Mr Allen Adams.

Green membership divided on party's long-term objectives

By Ralph Atkins

THE GREEN Party conference in Wolverhampton yesterday unanimously passed a motion saying a war in the Gulf would be "brutal, bloody and counter-productive."

It postponed taking a decision on whether western troops should be withdrawn, pending a full emergency debate tomorrow.

While an opinion poll in the Observer put support for the Greens at just 3 per cent, party members remained divided on streamlining the organisation.

The "Green 2000" lobby, which says the party must aim for government by early in the 21st century, faces a tough challenge to persuade members away from concentrating on local campaigns for fundamental and revolutionary changes in society.

"The job of a political party is to present a vision," said Ms Penny Kemp, a prominent Green Party member and opponent of Green 2000.

Green 2000 shies away from a single leader preferring a "leadership team" to work within the political system.

Three of the most prominent speakers – Sara Parkin, David Icke and Jean Lambert – have all backed the Green 2000 lobby which describes "the uninhibited right to do our own thing, regardless of the political consequences," as a "self-indulgence we cannot afford."

Opening the Gulf debate, Mr Mallen Baker, party speaker on defence, said the Greens opposed President Saddam Hussein of Iraq but would never support a war in the region.

He said: "Patriotism for us means reverence for all life and for the earth, and when our country and Government can say the same, then we will salute it."

● The party underlined its commitment to decentralisation by voting overwhelmingly to set up a separate Green Party in Scotland.

THE GREEN PARTY said that a survey of 221 British beaches which it published yesterday showed that some of the country's best beaches failed to meet legal standards on cleanliness. It said most fell short of EC standards, and alleged that there was a conspiracy between the Government, the National Rivers Authority and other public bodies to ignore and break the law.

Hope for Exchange Travel franchisees

By David Churchill, Leisure Industries Correspondent

THE 64 Exchange Travel franchised outlets which faced bankruptcy following the collapse last week of the Exchange Travel group were yesterday offered the opportunity to transfer their travel agencies to CWS Travel, part of the Co-operative Wholesale Society.

Exchange Travel was put in administrative receivership last week and was forced to cease trading when the Association of British Travel Agents withdrew its membership. This prevented it from selling holidays offered by the leading tour operators.

The joint administrators from the accountancy firm of Arthur Andersen were forced to shut the 65 company-owned shops, making 300 staff redundant, and recommended that the franchisees did the same.

If the franchisees accept the deal made with CWS Travel, they would resume trading shortly under the Co-op Travelcare banner.

Mr Alan Katz, one of the administrators, said yesterday that the agreement with CWS Travel and other negotiations which are still under way "should mean that creditors will receive substantially more than on liquidation – previously estimated 25 per cent."

He said talks were still going on to find a buyer for the company-owned travel shops and other travel operations.

"It is disappointing that one major group withdrew after negotiations were at a very advanced stage."

CGE seeks expansion in Britain

By David Thomas, Resources Editor

COMPAGNIE Générale des Eaux (CGE), the French industrial group, has set up a company to spearhead its energy interests in the UK. Energy and Technical Services Group (ETS), will co-ordinate and seek to expand CGE's energy businesses in the UK.

The existing interests are:

● Associated Heat Services, which provides contract energy management services for industrial and commercial customers;

● Parkersell, which provides lighting management and maintenance services;

● Associated Electricity, 25 per cent owned by Electricité de France (EdF), which manages EdF's exports of nuclear electricity to Britain;

● Associated Gas Supplies, 45 per cent owned by Elf Aquitaine, which supplies gas to the industrial gas market.

Lord Ezra, former chief of the National Coal Board who will be chairman of ETS, said the aim was to co-ordinate "the activities of these companies and to expand them by acquisition and organically."

Lord Ezra foresees increasing opportunities for energy distribution and management companies in the newly competitive UK energy market.

ETS, which will be wholly owned by CGE, would have initial turnover of £80m-£90m, excluding the value of the EdF contract, Lord Ezra said.

Mr David Waterstone, former chief executive of the WDA, is to be chief executive of ETS.

LEGAL NOTICES

ROCKWOOD HOLDINGS PLC

Rockwood Intermodal Freight Limited

Rockwood Properties Limited

Rockwood Travel Limited

Bees Pension Trustees Limited

Bees Transport Limited

Dixon Royle Wilson Limited

Mersey International Freight Limited

Walford Meadows Limited

NOTICE IS HEREBY GIVEN, pursuant to Section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above named companies will be held at:
CHARTERED INSURANCE INSTITUTE
20 ALDERMANBURY
LONDON EC2 7HY

On 3 October 1990 at 10.00 a.m. for the purpose of having laid before it a copy of the report prepared by the administrative receivers under Section 48 of the said Act. The meeting may, if it thinks fit, establish a committee to exercise the functions conferred on creditors' committees by or under Section 49 of the said Act. The meeting may, if it thinks fit, establish a committee to exercise the functions conferred on creditors' committees by or under the Act.

Creditors are only entitled to vote if:-

a) they have delivered to us at the address shown below, no later than noon on 2 October 1990 written details of the debts they claim to be due to them from the company, and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986 and

b) there has been lodged with us any proxy which the creditor intends to be used on his or her behalf.

Please note that the original proxy signed by or on behalf of the creditor must be lodged at the address mentioned; photocopies (including faxed copies) are not acceptable.

Dated 18th September 1990

M A Jordan & J F Powell
Joint Administrative Receivers
CORK GULLY
Shelley House
3 Noble Street, London EC2V 7DQ

ROCKWOOD SECURE DISTRIBUTION LIMITED
SOMEY'S DELIVERY SERVICE LIMITED
BEES SERVICES LIMITED
BEES SECURITY DISTRIBUTION LIMITED
BVS INTERNATIONAL LIMITED

NOTICE IS HEREBY GIVEN, pursuant to Section 48(2) of the Insolvency Act 1986, that meetings of the unsecured creditors of the above named companies will be held at National Motorcycle Museum, Coventry Road, Bickenhill, Solihull, West Midlands, B92 0EJ on 2 October 1990 at 2.00 pm for the purpose of having laid before it a copy of the report prepared by the administrative receivers under Section 48 of the said Act. The meetings may, if it thinks fit, establish a committee to exercise the functions conferred on creditors' committees by or under the Act.

Creditors are only entitled to vote if:

(a) they have delivered to us at the address shown above, no later than noon on 1 October 1990, written details of the debts they claim to be due to them from the companies, and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and

(b) there has been lodged with us any proxy which the creditor intends to be used on his or her behalf.

Please not that the original proxy signed by or on behalf of the creditors must be lodged at the address mentioned: photocopies (including faxed copies) are not acceptable.

Dated: 14 September 1990

Michael A Jordan and John F Powell
Joint Administrative Receivers

ROCKWOOD DISTRIBUTION SERVICES LIMITED
ROCKWOOD DISTRIBUTION LIMITED

NOTICE IS HEREBY GIVEN, pursuant to Section 48(2) of the Insolvency Act 1986, that meetings of the unsecured creditors of the above named companies will be held at National Motorcycle Museum, Coventry Road, Bickenhill, Solihull, West Midlands, B92 0EJ on 2 October 1990 at 10.30 am for the purpose of having laid before it a copy of the report prepared by the administrative receivers under Section 48 of the said Act. The meetings may, if it thinks fit, establish a committee to exercise the functions conferred on creditors' committees by or under the Act.

Creditors are only entitled to vote if :

(a) they have delivered to us at the address shown above, no later than noon on 1 October 1990, written details of the debts they claim to be due to them from the companies and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and

(b) there has been lodged with us any proxy which the creditor intends to be used on his or her behalf.

Please note that the original proxy signed by or on behalf of the creditors must be lodged at the address mentioned; photocopies (including faxed copies) are not acceptable.

Dated 14 September 1990

Michael A Jordan and John F Powell
Joint Administrative Receivers

IN THE MATTER OF "MESAC" MIDDLE EAST BUSINESS ADVISORY SERVICE LIMITED

AND IN THE MATTER OF THE CYPRUS COMPANIES LAW CAP 113

Notice is hereby given that the creditors of the above-named company which is being voluntarily wound up are required on or before the 24th day of October 1990 to send in their full names, their addresses and descriptions, full particulars of their debts or claims and the names and addresses of their solicitors (if any) to the undersigned Mr Antony Haji Roussos FCCA of Julia House, 3 Themistocles Dervis Street, P O Box 1612, Nicosia, Cyprus, the liquidator of the said company, and if so required by notice in writing from the said liquidator, are personally or by their solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

Dated this 24th day of September 1990

A Haji Roussos FCCA
Liquidator

ART GALLERIES

THE 20TH CENTURY BRITISH ART FAIR, The Cumberland Hotel, Marble Arch, London W1. 26-30 September. 11am - 8pm. Last two days 7pm. Information: 071-371 1703.

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UK NEWS

Team to consider move into helicopter industry by BAe

By Paul Betts, Air Correspondent, and David White, Defence Correspondent

BRITISH Aerospace is setting up a confidential study group to examine possible entry into the helicopter business.

Mr Dick Evans, BAe's chief executive, said it was considering opportunities for building up a presence in the helicopter industry, in which Westland is the only British manufacturer.

The study group will be headed by Mr John Weston, managing director of BAe's military aircraft division.

BAe is already bidding, with the General Electric Company of the UK, for a Ministry of Defence contract to take overall responsibility for the troubled EH101 naval and transport helicopter project.

The EH101 airframe is being developed jointly by Westland and the Italian company Agusta.

Westland is making a counter-bid for the overall contract, which includes integration of electronics and weapon systems, in a team with IBM, the US computer group.

BAe is also prime contractor for UK arms sales to Saudi Arabia, which are expected to include up to 88 Black Hawk tactical helicopters made by Westland under license from its minority shareholder, Sikorsky of the US.

BAe's latest move is expected to add further questions about the future of Westland, which is struggling through a temporary dearth of new helicopter orders.

Helicopters were left out of the original consolidation of the UK airframe industry around what became BAe in the 1960s and 1970s. Mr Evans believes that was a mistake.

BAe is now alone among the leading western civil aerospace manufacturers without a helicopter interest.

By contrast, helicopters have become the most profitable division at the French state-owned Aérospatiale, which is now merging its helicopter activities with those of West Germany's Deutsche Aerospace group. Both Aérospatiale and Deutsche Aerospace are manoeuvring to try to lure Westland into the new grouping, as well as Agusta.

Abortive plans for a European takeover of Westland provoked a UK Cabinet crisis in 1986. Sikorsky subsequently took a minority interest in Westland. It now holds less than 8 per cent and GKN, the British engineering group, holds almost 22 per cent.

Westland, which has sought to diversify into other aerospace fields, is seen to be vulnerable in comparison with its competitors. All its US and European rivals are considered to be better protected against cyclical problems because they either belong to a leading industrial group or are state-controlled.

There has been speculation that BAe might be interested in bidding for Westland. But BAe has indicated that it might equally be able to develop its own "in-house" expertise in helicopters.

BAe's interest is based on the importance it attaches to helicopter technology in the overall development of the aerospace sector, and expectation of a revival, especially in the military helicopter market which dominates the industry.

However, some top BAe executives believe it may be too late for the company to enter the field in competition with the four US manufacturers – Sikorsky, Bell, Mc Donnell Douglas and Boeing. There is general consensus in the industry that there are already too many Western manufacturers.

"With four in Europe and four in the US, it's already more than enough, and we're going to have to lose a few," one US industry executive commented during the recent Farnborough air show.

Mr Gerald Kaufman (left) with the Labour candidate, Mr Eddie O'Hara

Les Byrom, the Tory, backed on the platform by Mr Kenneth Baker (left)

Labour in sight of victory without a fight

Ian Hamilton Fazey profiles a safe Merseyside seat going to the polls on Thursday

IT IS a moot point whether the Labour Party is doing any fighting to defend the Merseyside parliamentary seat of Knowsley South, which goes to the polls on Thursday in the first of a series of by-elections this autumn.

The urbane, multilingual Mr Eddie O'Hara is, quite reasonably, expecting to win easily. So why break into an unseemly, image-rumpling sweat in the process of doing so?

The contest is such a mismatch that everyone involved seems to be merely going through the motions. Even the voters seem indifferent: it is hard to find a single front window displaying a poster, so a casual visitor would not know that there was an election on at all.

One reason that the seat is impregnable is the work done by Mr Sean Hughes, the Labour MP whose death from cancer at the age of 44 caused the by-election. In 1987 he increased an already strong majority to 20,846, winning 64.5 per cent of the franchise.

Mr Hughes was formerly a history teacher who used to delight in sending Merseyside's neo-Marxist left-wingers into paroxysms of rage by telling them that there was nothing inevitable about history.

Another reason Knowsley South is impregnable is that there was no left-wing Labour caucus there to bully Mr Hughes with the threat of deselection.

The constituency, most of which was then known as Huyton, was held for 20 years by Mr Harold Wilson, who had able Labour moderates to guard his back while he was away being Prime Minister.

When Militant emerged in Liverpool as Labour's national electoral albatross, and when the Merseyside party degenerated into political sectarianism, Knowsley South was an oasis of moderation. So in 1986, when Mr Neil Kinnock and his newly-moderate national executive committee decided to thwart Merseyside's left-wing activists by imposing a politically safe candidate in a by-election in neighbouring Knowsley North, they found Mr George Howarth from Knowsley South.

On Friday, Mr Kinnock admitted that the contrast between the two by-elections itself symbolised how far the Labour Party has come in the last four years.

Then, Mr Robert Kilroy-Silk, Knowsley North's sitting MP, had left for a career in television ahead of impending deselection by left-wingers who wanted one of their own in the seat. The by-election – and Mr Howarth's feat in winning it with a small number of imported helpers – was a turning point in Mr Kinnock's campaign to marginalise Labour's left wing.

Mr Peter Kilfoyle – the official in charge of Labour's local purge of Militant and its fellow-travellers – watched with vigilant satisfaction on Friday when Mr Kinnock and Mr O'Hara toured Huyton's sixth-form college.

"Four years ago there would have been a mob of left-wingers demonstrating outside the gates as Neil arrived. The heart has gone out of them now. Their organisation is folding," he said.

Indeed, Mr O'Hara would not even have been nominated in most Merseyside constituencies just four years ago, in spite of his working-class credentials.

He may have been born in Bootle in 1937, the son of a horse-keeper in Liverpool docks, but he later read classics at Magdalen College, Oxford. He is now principal lecturer in education at Liverpool Polytechnic.

He has been on Knowsley council for 15 years and has been chairman of its education committee. His two main opponents are also local councillors, but not in Knowsley, where Labour has all but three of the 66 seats.

Mrs Cathy Hancox, standing as a Liberal Democrat Against the Poll Tax, sits in Liverpool, while Mr Les Byrom, the Conservative, represents one of the comfortable upper middle-class suburbs of Southport on Sefton council.

If there is an issue in Knowsley South, it is the question of who will come in second place. In the general election, it was the Conservatives, with 21.6 per cent of the vote. Mrs Hancox says that at the time as total no-hopers the SDP-Alliance put up a "paper" candidate only, whose resources ran to only one election leaflet.

Mr Paddy Ashdown, the Liberal Democrat leader, defended her "against the poll tax" addition to the party name. He did not accept that this might lead to confusion over whether she or Mr Ian Smith, a maverick Liberal candidate, was the standard-bearer for his party.

Compared with other by-elections, the Liberal Democrat campaign has been muted and barely visible. The party has been caught on the hop by the by-election which clashed with its conference last week, severely inhibiting canvassing. Even Mrs Hancox went to the conference.

By contrast, Mr Les Byrom, the Conservative, has been out on the doorstep every day. Ominously for his chances, however, people who last Wednesday said they would vote for him had not, by Friday, put up the posters he gave them.

Mr Byrom, a cheerful chartered surveyor, even wears a Gannex topcoat, but since it is an olive green zip-up affair and looks nothing like the coats Harold Wilson made famous, it is doubtful whether this will in fact do him much good.

He might have had a chance in 1932, when the constituency was a collection of rural villages such as Huyton-with-Roby, Whiston and Halewood. But that was the year when the then Earl of Derby sold nearly 2,000 acres of land to Liverpool City Council for overspill housing.

The result is that there is little bucolic bliss in Knowsley South today, in spite of there still being many acres of working farmland.

Halewood is dominated by the Ford car plant, but most people work outside the constituency. Unemployment is twice the national average, with the male jobless rate about 17 per cent and two-thirds of jobless people under 35.

Mr O'Hara should be making a triumphal appearance at the Labour Party conference next month.

Candidates: Leslie Byrom (C), Raymond Georgeson (Green), Catherine Hancox (Lib Dem Against the Poll Tax), Edward O'Hara (Lab), Ian Smith (Lib), Lord David Sutch (Monster Raving Loony - 19 Downing Street), Lady Cash Lash LaRue Whiplash (Corrective Party). 1987 RESULT: S. Hughes (Lab) 31,378, A. Hall (C) 10,532, Mrs E. Whatmough (SDP/All) 6,760. Lab majority: 20,846 (43.5 per cent). Poll 74.1 per cent.

Survey discloses shortage of computer specialists

By Alan Cane

UK COMPANIES are currently short of 19,300 professional computer specialists, about 11 per cent of the total of 175,000 computer experts working for British companies, according to the latest survey by the National Computing Centre (NCC), the organisation charged with developing Britain's commercial computing potential.

The survey covers only computer specialists working for users of computers; it does not take into account specialists working for software houses or computer manufacturers.

A shortage of experienced programmers and systems analysts has often been blamed for slow progress in developing advanced computer systems by UK companies.

The NCC survey shows that the greatest shortage is of programmers, software specialists who write computer code.

Analyst programmers, who size up the information needs of a business and design an appropriate computer system, are almost as scarce.

The NCC working group, chaired by Mr Fraser Mitchell, concludes employers will have to widen their target for potential recruits and consider older people, women returning to a career and non-graduates.

Study sees good future for independents

By John Thornhill

INDEPENDENT operators in the confectionery, tobacco and newsagent (CTN) market are likely to continue to dominate the sector in spite of the encroaching power of the multiple chains, according to a new report by Verdict, the retail consultants.

The report suggests that the independent operators, which account for 80 per cent of the £11bn market, have the advantage of close relationships with their customers and dedicated owner/managers.

Verdict on CTNs. Verdict Research, 112 High Holborn, London. WC1V 6JS. Price £495

UK NEWS

Labour pledge to drop Tory nature group appointees

By John Mason

UNSUITABLE political appointees to the governing bodies of the Nature Conservancy Council and other environmental groups would be removed by a future Labour government, Mr Bryan Gould, the shadow Environment Secretary, said yesterday.

In a speech to the Royal Society for the Protection of Birds, he said many recent appointments to such bodies had been made on the basis of loyalty to the Conservative Government.

Mr Gould said the membership of these organisations would be reviewed and unsuitable people would be replaced by others with adequate experience in voluntary conservation groups.

"I have no wish to denigrate the important contributions given by many of the 'great and good' who have been appointed in the past, but I do believe that there needs to be a much greater consumer input into these kind of bodies. It shouldn't really matter what colour your wellies are," he said.

Mr Gould said a future Labour Government would have to address problems left by the break-up of the NCC into three separate organisations for England, Scotland and Wales.

A national organisation would have to be established to build up a science base and form policy. It would judge individual decisions from a national perspective and play an international role in identifying and countering ecological threats.

Mr Gould also reaffirmed Labour's commitment to an integrated approach to environmental policy.

All areas of government policy had to be "greened," he said, with the departments of energy, transport, trade and industry, and agriculture in the environmental front line.

Clean technologies and energy efficiency had to be promoted and a more precautionary principle adopted with manufacturers, which would have to prove their products were harmless before starting production.

An independent Environmental Protection Agency would be set up and support given for restructuring agriculture to encourage less intensive farming that was less dependent on the use of chemical fertilisers.

Charge-capping 'will lead to social service cuts'

By John Mason

CHARGE-CAPPING of local authorities will lead to cuts in social services, particularly those for the elderly and mentally handicapped, Mr Robin Cook, the shadow Health Secretary said yesterday.

A Labour Party survey of 12 capped local authorities, which have finalised their revised spending plans, showed cuts in social services budgets of between £3,120,000 for Hammersmith and Fulham to £149,318 for St Helen's.

Mr Cook said services for the elderly were the most frequent casualty of the planned cuts, with closures of old peoples' homes, reduced recruitment and training of home helps and increased charges for meals on wheels services.

Local authorities had also been forced to shelve plans to provide new services for the mentally ill, Mr Cook said.

In a letter to Mr Kenneth Clarke, the Health Secretary, Mr Cook said the cutscontradicted the aim of the Government's proposals to move away from institutional care in the health service and instead encourage local authorities to provide social services. "When ministers use local authorities as their whipping boy, it is the most vulnerable members of the community who get hit."

Tony Andrews

Summer in the city: experts are to monitor air quality following complaints of pollution

ENVIRONMENT WHITE PAPER

Proposals to 'civilise' traffic

By John Hunt, Environment Correspondent

MEASURES to "civilise traffic" and boost energy conservation will be included in the white paper on the environment to be issued tomorrow.

The white paper will propose better traffic management, priority for buses and improved parking.

A group of experts will be set up to monitor air quality in towns and cities following complaints during the hot summer of serious air pollution and smog resulting mainly from car exhaust fumes.

The Government claims that the programme in the 300-page document will set the environmental agenda until the turn of the century. But the white paper emphasises that the pledge to protect the future of the planet does not mean "trying to halt economic growth."

It contains no firm commitment to a carbon tax on fossil fuels such as coal and oil which contribute to global warming by emissions of carbon dioxide. Proposals from Professor David Pearce, adviser to Mr Chris Patten, the Environment Secretary, were watered down after opposition from the Treasury and Department of Energy.

But the white paper keeps the door open to such schemes. It says action will have to be taken in the long run to increase relative prices of energy and fuel through taxation or other means.

The document stresses the need for balance between tough pollution regulations and voluntary action through Government encouragement and guidance.

Environmental organisations have voiced doubts that the document will live up to Mr Patten's claim that it will put Britain in the vanguard on environmental issues. They see it as the acid test of Mrs Thatcher's commitment to the environment.

Measures to encourage energy efficiency and thus reduce carbon dioxide emissions are in one of the firmest sections of the white paper.

There is a pledge to step up the work of the Energy Efficiency Office which, under the Department of Energy, has been run down in recent years.

The white paper is also expected to include measures to help industry assess the most effective way of reducing energy use. There will be promises to improve energy efficiency standards for buildings and encourage energy labelling of houses and household appliances.

There will be a promise of more Government money for environmental research, though this is not quantified.

There is also a general pledge to encourage the provision and use of public transport to reduce dependence on private cars, but "green" organisations believe Mr Patten has lost out to Mr Cecil Parkinson, the Transport Secretary, in the argument over the need to control the ever increasing number of cars.

The white paper is expected to suggest that differential car taxes to encourage drivers to use smaller vehicles consuming less fuel should at least be discussed, but it contains no specific undertaking for their introduction.

Road pricing to reduce congestion in towns and cities has not been included.

On the international front there will be a commitment to help China and India reduce pollution, particularly carbon dioxide emissions, while they develop their economies.

There has been a battle over proposals that the Department of the Environment should issue annual reports on the effect of government activities on the environment.

But this aroused hostility in other Whitehall departments and it was agreed only to publish such reports occasionally.

The publication of the white paper is part of the political battle for the green vote as the party conference season gets into full swing.

Smith calls for talks on full EMS membership

By Philip Stephens, Political Editor

THE Labour Party yesterday called on the Government to begin immediate negotiations to take up full membership of the European Monetary System as part of a package of measures to head off an economic recession.

Mr John Smith, Labour's shadow Chancellor, said that sterling's participation in the EMS exchange rate mechanism could pave the way for lower interest rates. He called for an initial one-point reduction from the present 15 per cent.

Interviewed by Mr Brian Walden on London Weekend Television, Mr Smith also repeated Labour's call for credit controls as part of the strategy to bring down inflation. However, he ruled out direct controls on borrowers, calling instead for new constraints on banks and other lending institutions.

In a confident performance designed to reinforce Labour's claim to have a moderate and responsible approach, he said that Britain was already in the grip of a recession.

It now faced the problem of "stagflation," the coincidence of rising prices and static or falling output.

Mr Smith said Labour could not offer any easy solutions. Yet he suggested that the package of ERM entry, lower interest rates and credit controls, would provide the basis for recovery.

He stressed that over the medium term, a Labour government would pay greater attention to the supply side of the economy. Present inflation rates could be partly attributed to lack of investment in plant and machinery, and in education and training.

The controls might consist of asset reserve ratios, applied to banks in many European countries, and possibly re-introduction of special deposits, applied in the 1970s.

In what appeared to mark a change in Labour policy, he rejected the idea of limits on the amount individuals or companies might borrow. In the past, Labour has suggested mortgage and credit card borrowing might be restricted.

Machine tool makers could suffer sudden drop in new orders

By Charles Leadbeater, Industrial Editor

BRITISH machine tool makers may be facing a sudden and steep drop in new orders, suggesting that the country's manufacturing industry is cutting back on investment and that export growth may be faltering.

The volume of new orders from UK customers for British machine tools was 13.5 per cent down in the three months to July, compared with the same period last year, according to figures published by the Central Statistical Office.

The figures show that the volume of new export orders has fallen by 51 per cent in the last three months. Overall, the volume of new orders into the industry was 38 per cent down in the three months to July, compared with the corresponding period last year.

Although the machine tool industry accounts for only a small proportion of gross domestic product, orders for machine tools are one indicator of the investment intentions of manufacturing industry. The figures show that the volume of the British machine tool industry's sales and orders is only just beginning to slow.

The volume of sales in the UK during the three months to June was only 0.5 per cent down on the preceding three months and sales in July were 5.5 per cent higher than a year earlier.

In money terms the value of sales of British-made machine tools in the UK was 21.5 per cent higher in the three months to July compared with the same period in 1989.

The volume of exports was flat for most of the first half of the year, although it picked up in July with a 29.5 per cent increase in export sales. In money terms the value of export sales was 37.5 per cent higher in the three months to July, against the same period in 1989. Orders in hand from foreign customers were 13.5 per cent higher in July than the same month last year.

However, the 51 per cent cut in new orders in the three months to July suggests that the volume of export sales may fall quite sharply in the remainder of the year.

Sales of heavy steel sections decline 20%

By Charles Leadbeater

SALES of heavy steel sections by stockholders, mainly to the construction industry, are 20 per cent down on last year, according to this month's survey of the industry by the National Association of Steel Stockholders.

However sales of other products such as stainless steel are holding up well.

Mr Ron Cash, the association's secretary said: "The climate has changed in the past few months. Most stockholders are in no doubt they are in the midst of a downturn."

The survey shows that steel prices have flattened with signs of only marginal softening, even in areas such as heavy sections which have been worst hit.

About 30 per cent of stockholders reported an increase in selling prices for heavy sections in September, with only 11 per cent reporting lower prices. The market for steel plates has shown some weakening: about 17 per cent of stockholders reported weaker prices, while 6 per cent recorded price rises.

Steel producers hope that production will recover from its traditional August low.

Steel output declined 8.5 per cent in August to a weekly average of 301,000 tonnes, marginally down on the same month last year when production averaged 304,000 tonnes a week.

Official figures published by British Steel and the British Independent Steel Producers Association show that steel production in the first eight months of the year averaged 348,000 tonnes, 4.5 per cent down on the same period last year.

However the real test for the industry will come in the run-up to Christmas. In 1989 steel output surged from a low of 303,000 tonnes a week in August to 380,000 tonnes in September and remained fairly high throughout the autumn before tailing off in December.

It seems unlikely that this surge will recur this autumn after warnings that the economy is on the verge of recession.

Steel output has fallen from a peak of 18.9m tonnes in 1988, to 18.7m tonnes last year. On current trends it is set to fall to nearly 18m tonnes this year.

Steel stockholders, which act as intermediaries between steel producers and the final customer, report a mixed outlook.

Income tax cuts attacked

WIDE differences in the effects on high and low earners of the Government's income tax cuts over the last 10 years were condemned yesterday by Mrs Margaret Beckett, the shadow Chief Secretary to the Treasury, writes John Mason.

Those earning more than £70,000 had benefited by an average £31,690 a year since 1979, compared with £170 a year for those earning less than £5,000, she said.

Those earning between £60,000 and £70,000 benefited by an average £10,110 a year. Someone earning between £5,000 and £10,000 received tax cuts worth £340 a year.

Mrs Beckett said the cuts had been funded by North Sea oil revenues totalling £91bn and privatisation proceeds.

هكذا من الاعلانات

Mercedes Benz 200E 1997cc, 122bhp top speed 120mph

Always seen in the best of companies

Even before you shake your client's hand, the Mercedes-Benz you've arrived in will say something about the strength and confidence of your company. What isn't telegraphed so obviously, though, is the sound financial sense such a car also makes – when you buy Mercedes-Benz quality you get full Mercedes-Benz residual value at trade-in time.

So it's worth examining a car or two in the 17-model Mercedes-Benz 200E-300E series. A silent partner it may be, but the classic elegance of the 200E, for instance, speaks volumes for your business acumen.

Full Comfort For Five

Full five-seaters, the petrol-injected or diesel 200E-300E models are precisely the range you'll be thankful you have on the team when you're playing chauffeur to a client delegation. The 200E's blend of welcoming refinement, ample legroom and Mercedes-Benz dependability, is as reassuring as it is prestigious.

From airport to city, you're still travelling first class, cradled on seats with a steel-sprung base. Such traditional construction is rarely used these days, but this artful seven-layer sandwich of steel springs, natural fibre and foam rubber has yet to be improved on for comfort and resilience. This combination of springs and natural fibres also allows air to circulate and the seats to breathe, and inhibits perspiration.

And between London and Liverpool, as you reel in the motorway monotony, you'll find other reasons to be grateful you put your trust in the world's most experienced car maker. The accuracy and responsiveness of recirculating ball power steering, for instance, which helps to endow all Mercedes-Benz cars with their exceptional and much envied directional stability; panoramic forward vision, however bad the conditions, thanks to the 200E's single eccentric-sweep wiper which clears a larger proportion of the windscreen than any other car wiper system available. And all five of the main petrol-engined models in the 200E-300E series are fitted with closed-loop three-way catalytic converters.

The Priorities Of Experience

The list of benefits is long. And, as your dealer explains them, the thoughtfulness of Mercedes-Benz priorities, and their leadership over six decades in the development of both active and passive safety systems, will make a case to impress the most hard-nosed business-car buyer.

Which means you can add the best reasons for choosing a 200E to those which suggest it simply makes good business sense for the best of companies to travel first class.

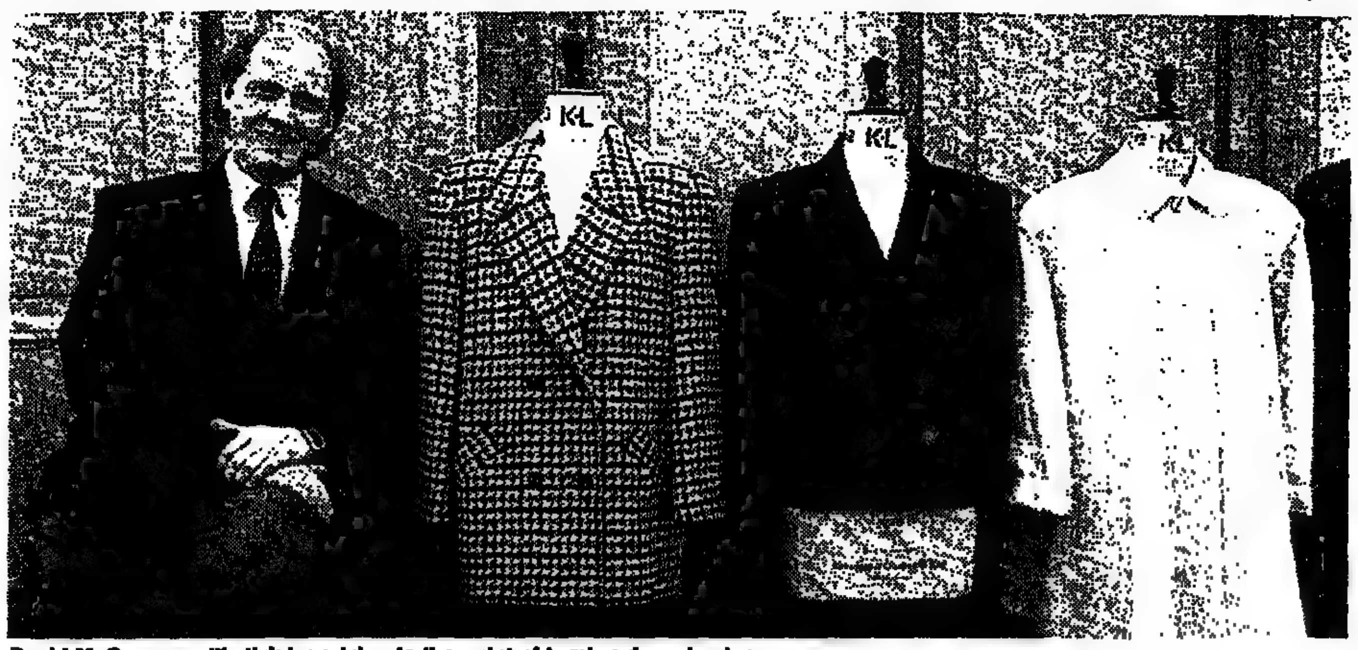
World Sports Car
Champions 1989

Engineered Like No Other Car In The World

Alexon

A fully fashioned operation

Having learnt from its experience in manufacturing, the Marks and Spencer supplier has now decided to place emphasis on its retailing activities. Jane Fuller explains why



David McGarvey: will stick by pricing to the point of turning down business

At a factory in north-east England, owned by the Alexon group, a woman at a sewing machine deftly inserts 600 pairs of sleeves a day into blouses. Throughout the establishment, which is one of the most profitable suppliers to Marks and Spencer, the pace of activity contrasts with the subdued air in UK high streets, where the other wing of Alexon's clothing business operates.

Yet despite an overall operating profit margin of around 10 per cent for its manufacturing operation (and rather more at the County Durham factory), Alexon has decided that its priority for growth is retailing.

This may seem surprising given such gloomy news as the collapse of Sock Shop and Lowndes Queensway and profit warnings from Burton and Etam. Alexon, however, has so far bucked the trend, more than doubling pre-tax profit in the past two years to £21.4m and analysts forecast £24m for the 12 months to March.

Management's conviction about the potential for growth in retailing is based partly on its belief that it is operating in relatively recession-proof markets and partly on the scope it sees for further margin improvement. To achieve the latter it has drawn on the disciplines honed on the manufacturing side, notably the Claremont Garments subsidiary, based in Peterlee, County Durham, where the heads of the business, chairman Peter Wiegand and chief executive Lawrence Snyder, cut their teeth.

The opportunity to build up retailing was enhanced by the purchase two years ago of Ellis and Goldstein, including the Dash and Eastex brands. E&G's pre-tax profit had fallen from £4m to £2.3m between 1986 and 1988 and the £44m purchase price was regarded by analysts as being rather high. Now Dash is the fastest growing part of the group, accounting for nearly half of retailing operating profit, which was £13.5m on sales of £115m last year.

The switch in emphasis was marked last year by a change in its Stock Exchange listing from textiles to the more highly rated stores sector, reflecting the fact that more than 80 per cent of its £167m turnover and £22m operating profit came from the retailing trio of Alexon (classic rather than trendy ladieswear), Eastex (clothes for the older, shorter woman) and Dash (leisurewear).

Snyder says that part of the reason for the group's resilience is that its three retailers are in relatively buoyant markets, notably that for leisurewear. Dash clothes are sold from about 200 shops or shops-within-shops and 40 new outlets are being added annually. Alexon and Eastex clothes are typically sold through concessions in department stores, a route favoured also for the group's forays into overseas markets.

Eastex, although currently the least profitable of the three, is regarded as having great potential because it serves the market for women from 50 upwards. Analysts point out that this growing swathe of customers has been neglected, despite the fact that older people – with savings and without mortgages – tend to be beneficiaries of high interest rates.

Alexon operates in a more competitive market, rubbing tailored shoulders with Jaeger, Windsmoor, Planet, Country Casuals and Jacques Vert. Nevertheless, demand is growing with the affluence particularly of working women in their thirties and forties.

In transferring disciplines from manufacturing to retailing, a much greater emphasis has been placed on profit margins. Says Snyder: "When we came into retailing we found people there who did not give a bugger about profit. Instead they were preserving their own position or ego, or something about the shop or the product." Now, between 10 and 40 per cent of a manager's pay is profit-related and sales staff get commission.

The system of incentives is reminiscent of the piecework payments made by Claremont. At the Peterlee factory in County Durham, the minimum wage is £90 for a 38¾-hour week but the average pay is £125. David McGarvey, managing director of the manufacturing division, explains that accelerating rates of remuneration apply once the minimum target has been reached.

Yet Wiegand also points out that in the earlier stages they learnt some of the specifics of retailing by trial and error. "We learnt the hard way that it's no good having the best range in the world if it's not in the stores."

Discipline is the word most frequently used by McGarvey to explain the optimum profitability achieved by Claremont in the north-east. "We leave no stone unturned in a total approach to manufacturing efficiency."

This ranges from in-house engineering support to minimise mechanical breakdowns to applying strict commercial criteria to the merchandise. The aim is to avoid involvement in unprofitable lines – "margins before turnover" – is another of the laws set in stone.

McGarvey says Claremont is prepared to stick by its pricing decisions to the point of turning down business and irritating the customer. "It is a trap always to seek to please the customer" – even M and S. The continual challenge is to find new ways of producing the merchandise within the pricing parameters.

Among many examples on the shop floor is a computerised scanner which measures the continuity of shade between different rolls of material. The object is not to get a perfect match but to certify that different pieces are within agreed tolerances so that they can go into the same garment.

With fabric accounting for 50 per cent of the garment's cost, the elimination of waste is crucial. Another computer-based process plans the layout of pattern pieces on a roll of material. One screen display showed the pieces for eight skirts laid out on a roll of material 10 metres long and 1½ metres wide. All but 5 per cent of the material would be used when the instructions were transferred to the computer-guided cutting tool.

After the cutting stage, production switches away from computers to serried rows of sewing machinists. The woman inserting 600 pairs of sleeves a day in blouses has her job facilitated by the single garment unit production system, of which Claremont reckons to be the world's biggest user. This means each garment is kept on a separate hanger, attached to an overhead rack that brings the garments in close succession to the machinist's side.

This system contrasts with an older, less efficient, one involving bundles of garments still operating at the Glasgow factory, which Alexon acquired in the takeover of D & H Cohen, another M and S supplier, three years ago. McGarvey says that as optimum margins have been achieved at Claremont north-east (a total of five factories clustered within a 20-mile radius of Peterlee), it is being used as an example of best practice for both the Glasgow operation and Mead, the in-house manufacturer for Alexon and Eastex.

Yet whatever the efficiency gains made, Snyder makes it clear that there are no plans to expand the manufacturing side. This means that the retail sales growth is drawing in garments from other sources. In the case of Dash and recently established leisurewear lines for M and S, this means imports from the Far East.

A Hong-Kong based clothing importer, Richarvey, which was involved with Dash, was bought at the same time as the E & G acquisition. From this base, offices have been opened in Singapore and Taiwan. Snyder says the imports supplement the range made in the UK, rather than replacing any of it.

With expansion plans focused on the retailing side, the group has established some outlets on the Continent and in North America. As such moves have proved the undoing of companies such as Sock Shop, they admit the advance has been cautious.

Snyder says the 20 shops-within-shops in Canada and the US have proved successful, whereas the five free-standing units have not. Future expansion will follow the proven route of setting up concessions in selected department stores. "With a concession, if you lose money, you pull out. It is not so easy with high street shops."

On the Continent, the conservative approach has been expressed in the choice of countries. So far there are no Alexon outlets in France or West Germany. The 25 or so established so far are in Scandinavia, the Netherlands, Belgium and Switzerland, which is regarded as a test-bed for Germany.

France, however, attracts the most caution. Snyder says this is because of the lack of up-market, busy department stores (other than in Paris) necessary to the preferred concession route.

Yet this wariness is a detail compared with the policy of giving priority to retail expansion "because you get a better return on retail investment than on manufacturing."

Doesn't he harbour any sentimentality for his manufacturing roots at Claremont? "I'm only sentimental about the profits we achieve from it," he replies.

Now anthropology enters the arena

Simon Holberton on the continuing search for the illusory Euromanager

"HAVE you ever met a Euromanager?" asked Claude Rameau, dean of INSEAD, the Fontainebleau-based business school. "You're very lucky if you have; I've never met one."

Rameau was participating last Thursday night in a dinner debate sponsored by the French Chamber of Commerce in London.

He shared the top table with George Bain, principal of the London Business School, Pierre Moussel, managing director of Elf Aquitaine UK, and Sir John Egan, chief executive of British Airports Authority.

This august body of men produced two hours of sometimes entertaining cogitation on the theme of what it takes to become a successful Euromanager and thankfully there was little consensus on what is fast becoming a hoary chestnut.

Egan set the scene by describing the challenges the single market in Europe will pose for the manager of the 1990s. Competition, not protectionism, will be the key factor. The contest in the competitive arena will be fought and won by those companies which deliver quality and service to customers.

The manager of the 1990s will need to have a commitment to excellence and not think his problems can be solved by running to the government for protection.

The manager will have to provide strong and capable leadership needed to get people working together for the same ends.

Moussel stressed that most of all the Euromanager needed the capacity to understand others. This came through the study of languages which promotes the assimilation of foreign cultures and ways of thinking.

Bain, who knows that a good examination technique is to attack the question, said what was needed was the International Manager, not the Euromanager; 1992 was not the triumph of regionalism over parochialism but an enlargement of the arena over which parochial concerns will be fought.

So what do the company and managers of the 1990s need?

According to Bain they need: global organisation structures which recognise market and national differences; a global management team; leaders who possess vision (the ability to challenge conventional wisdom) and are flexible (developments in the 1990s will be unpredictable, the result of sudden shocks, such as the Gulf crisis); managers will need to be good communicators and sensitive to cultural differences. . .in short the "manager as anthropologist."

Aside from attending business schools, Bain said the international manager will also be defined by his/her work experience.

The manager will have had multi-functional experience, worked in different countries and also worked for different companies. Above all, the manager will have a positive attitude to learning all through their working life and teaching subordinates.

Culture

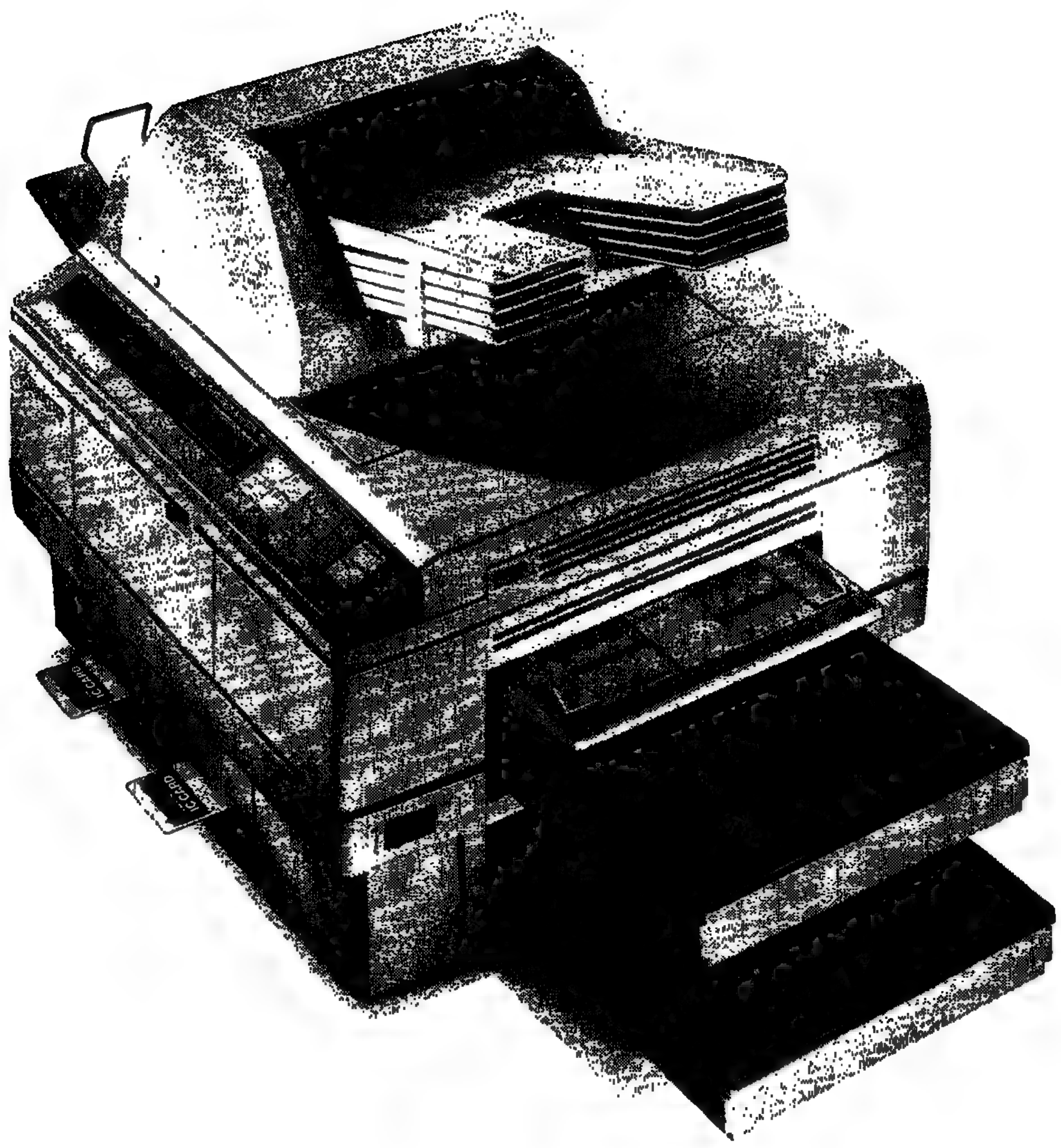
Rameau thought the burden of culture and nationality would always be present in managers.

Instead of trying to create a Euromanager, companies should work at making their national managers better and fostering a corporate culture of strongly shared values.

This process could start with training managers to appreciate how others perceive them. This sort of training would be done against a background of a corporate culture which fostered teamwork and the building of shared values. It would be furthered by attempting to select employees predisposed to sharing the company's values.

Little wonder that the managers at the function appeared a little beleaguered. As wish lists go, the collective wisdom of the speakers amounts to a rather large and unrealistic set of requirements.

Little wonder, also, that a number of respondents to the debate found themselves saying that the grounding in many of these requirements is found not within the corporation or the business school but in formal primary and secondary education and the family.



THE WEEK AHEAD

ECONOMICS

Passing the verdict on US growth

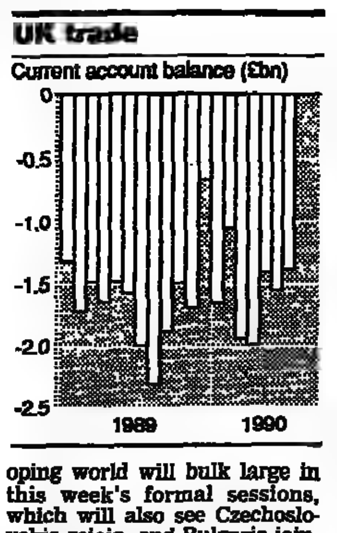
ALL eyes this week in the UK will focus on any further hints about the extent to which Britain is sliding into an economic slowdown. Publication today of the trade figures for Britain in August, which are likely to show yet another resounding deficit, will fail to offer much in the way of cheer.

UK government authorities may be inclined to add more details about the conditions on which Britain will enter the exchange rate mechanism of the European Monetary System. This could have the effect of calming financial markets.

In the US, a welter of statistics will indicate how much further the US economy has lurched into a recession. Attention will also focus on the annual meetings of the International Monetary Fund and World Bank in Washington. Much of the serious discussion on policy issues has already taken place in the weekend meetings of Group of Seven finance ministers and in the IMF's policy-making interim committee.

However, the problems of eastern Europe and the developing world will bulk large in this week's formal sessions, which will also see Czechoslovakia rejoin, and Bulgaria join, the IMF and World Bank. There will no doubt be more conjecture about how events in the Gulf will affect demand and consumption patterns.

During the week West Germany will announce August import prices and the September cost of living index. Italy will announce September consumer price rises.



Notable events and statistics due this week are as follows. The figures in brackets give median market forecasts from MMS International, a financial research company.

Today. US: Treasury Statement for August. Washington. IMF interim committee ends meeting; IMF/World Bank development committee meets. Canada, July wholesale trade figures. UK, Confederation of British Industry monthly trends survey; current account for August (£1.4bn deficit); visible trade balance (£1.5bn deficit)

Tuesday. US: gross national product growth for second quarter (1.2 per cent); fixed GNP deflator (4.7 per cent); second quarter corporate post-tax profits (down 0.7 per cent); home sales for August; September car sales; report by US Office of Management and Budget on Gramm-Rudmann cuts to take effect on October 1. Washington: formal opening of IMF/World Bank annual meeting, which continues until Thursday. France: trade balance for August (FFr6bn deficit). UK, building society new commitments in August.

Wednesday. US: durable goods orders for August (down 1 per cent); personal income growth for August (0.4 per cent); August personal consumption expenditure (up 0.3 per cent). Japan: retail sales for August (up 9.5 per cent on year).

Thursday. US: initial claims, money supply data. Australia: current account for August (A$1.54bn deficit). France: consumer price index for August (up 3.5 per cent on year). Japan: industrial production for August (up 1.5 per cent).

Friday. Chicago: National Association of Purchasing Managers Index for September. US: leading indicators for August (down 0.9 per cent); September agricultural prices; August bank credit and commercial and industrial loans. Canada, real GDP at factor cost (down 0.1 per cent). Japan: September consumer price index (up 3 per cent on year). UK: second quarter personal income.

Peter Marsh and Rachel Johnson

UK COMPANIES

TARMAC, regarded as a microcosm of UK construction as its activities range from quarrying to house building, is on Tuesday expected to illustrate the industry's contraction with a pre-tax profit fall of more than a third to around £100m for the first half of the year.

The figures have to be compared with a particularly strong performance in the first half of last year.

A prime example of the problems faced since then is that housing starts so far this year have fallen by 27 per cent.

Beazer, due to report its June-year-end final results on Thursday, has also been grappling with the housing slump. Its pre-tax profit is expected to fall from £142.5m to £95m.

One cause of concern about the company, which saw its share price fall by 14 per cent on Thursday, is its borrowings, which stood at more than £1bn at the year-end, giving 90 per cent-plus gearing.

Redland, the building materials group which reports its interim results on Thursday, is expected to increase taxable profit slightly from £104m.

Thursday's announcement of its interim results cannot come too early for Brent Walker after the traumas of the past few weeks followed by Friday's share price fall. The bulk of opinion among analysts still favours pre-tax profits of around £40m in comparison with last year's £30m at this stage.

Also due on Thursday are interims from Trusthouse Forte with analysts looking for about £116m pre-tax, less than the £119m at the comparable stage last year due to smaller contributions from property disposals and the Savoy stake.

Vickers, the Challenger tanks to Rolls Royce engineering group in which Sir Ron Brierley's IEP securities has a 20 per cent stake, announces interim results on Thursday. Analysts are expecting it to report around £40m pre-tax against £32m.

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Colefax & Fowler, The Merchant Taylors' Hall, 30 Threadneedle Street, E.C., 11.00
Hughes Food, Cave Castle Hotel, South Cave, Brough, North Humberside, 10.00
Merrydown Wine, Horam Village Hall, Horam, Heathfield, East Sussex, 12.00
BOARD MEETINGS
Finals:
Cornwell Parker
GT Japan Inv. Trust
Hays
MAI
Polypipe
Interims:
Aberdeen Petroleum
Antofagasta Hldgs.
Brent Chemicals
Edinburgh Fund Managers
Headlam
Hibernian
Kelt Energy
Lamont
Metalrax
Rutland Trust
Schroders
Steetley
■ TOMORROW
COMPANY MEETINGS:
Black Arrow, 748 London Road, Hounslow, Middlesex, 12.00
Goode Durrant, The Waldorf Hotel, Aldwych, W.C., 11.00
Norbain Electronics, Norbain House, 14-16 Boulton Road, Reading, 12.00
Save & Prosper Return of Assets Inv. Trust, 1 Finsbury Square, E.C., 3.00
Wood (John D.), 26 Curzon Street, W., 12.00
BOARD MEETINGS:
Finals:
Domestic & General
Elders IXL
Interims:
Baltic
Blockleys
Brooks Service
Brown & Jackson
Dean & Bowes
Espirito Santo Finci.
Estates & General
Finlay Packaging
Folkes
Henderson Highland Trust
IPECO
Jardine Matheson
Kwik-Fit
Needler
Newmark (Louis)
Radiotrust
Rathbone Brothers
Stag Furniture
Tarmac
Yule Catto
■ WEDNESDAY SEPTEMBER 26
COMPANY MEETINGS:
Anglian Water, Castle Ashby House, Northamptonshire, 11.30
ASDA, Pudsey Civic Hall, Dawsons Corner, Pudsey, Leeds, 2.30
Brasway, Europower Hydraulics Ltd., Southgate, Market Weighton, York, 10.30
CH Industrials, Howard Hotel, Temple Place, W.C., 12.00
TR Trustees, Mermaid House, 2 Puddle Dock, E.C., 12.30
BOARD MEETINGS:
Finals:
Eleco
Gent (S. R.)
North American Gas Inv. Trust
Renishaw
Unigroup
Interims:
Billam (J.)
Boddington
BSG Intl.
Carbo
Clifford Foods
Dagenham Motors
Dencora
Evered
FBD Hldgs.
Geest
Hampden Homecare
Hogg
Hopkinsons
Kingston Oil & Gas
Serif Cowells
Spirax-Sarco Eng.
TDS Circuits
Worcester
World of Leather
■ THURSDAY SEPTEMBER 27
COMPANY MEETINGS:
Budgens, Butchers Hall, Bartholomew Close, E.C., 11.00
Dixons, Royal Lancaster Hotel, Lancaster Terrace, W., 11.00
Electric & General Inv., 3 Finsbury Avenue, E.C., 12.30
Ellis & Everard, Farmers & Fletchers Livery Hall, 3 Cloth Street, E.C., 12.00
Greycoat, Leconfield House, Curzon Street, W., 12.00
Palmerston Hldgs., Covent Garden Exhibition Centre, Great Queen Street, W.C., 10.30
Platignum, 20 Greenfield, Royston, Herts., 10.00
Smith (David S.), The St. James Court Hotel, Buckingham Gate, S.W. 10.15
Stewart & Wight, 1 Hobart Place, S.W. 11.00
Sutherland, Aston Hall, Worksop Road, Aston, Sheffield, 11.00
Waverley Cameron, The Hilton National, Belford Road, Edinburgh, 12.00
Williamson Tea, Great Eastern Hotel, Liverpool Street, E.C., 12.00
BOARD MEETINGS:
Finals:
Bailey (Ben)
Beazer
Brierley Invs.
Close Bros.
Halstead (James)
Lincat
Sinclair Goldsmith
Interims:
Ambrit Intl.
Bedford (William)
Brent Walker
Camellia Invs.
Capital & Regional Props.
Clark, Nicholls & Coombs
Clayform Props.
Commercial Bank of London
Dolphin Packaging
El Oro Mining & Exploration
Exploration
F & C Pacific Inv. Trust
Great Southern
Harding
Martin Currie Pacific Trust
Redland
Sintrom
Sykes Pickavant
T & S Stores
TV-am
Thurgar Bardex
Trusthouse Forte
United News
Vickers
Whatman
■ FRIDAY SEPTEMBER 28
COMPANY MEETINGS:
Beales (John), Boulevard Works, Radford Boulevard, Nottingham, 12.00
BTS, 344 Kensington High Street, W., 11.00
English & Caledonian Inv., Charles Oakley House, 125 West Regent Street, Glasgow, 12.00
Leigh Interests, Chamber of Commerce, 75 Harborne Road, Edgbaston, Birmingham, 12.00
Peel Hldgs., The St. James's Club, St. James's House, Charlotte Street, Manchester, 12.00
Property Security Inv. Trust, Butchers' Hall, 87 Bartholomew Close, E.C., 12.00
BOARD MEETINGS:
Finals:
Adwest
Bristol Channel Ship Repairers
Goodwin
High-Point
Interims:
Arcolectric
Bostrom
Central Independent TV
Children's Medical Charity Inv. Trust
Eadie Hldgs.
Intl. Inv. Trust Co. of Jersey
Rademac
Sherwood Group
Waterford Foods
Wolstenholme Rink

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Abtrust Scotland Inv. 0.45p
Asian Development Bank 10¼% Ln. 2009 (Reg.) 5.125pc.
Greenhall Whitley 10% Deb. 2014 5pc.
Grovewood Securities 1.5p
Intl. Bank for Rec. & Dev. 11½% Ln. 2003 5.75pc.
Kershaw (A.) 9p
Do. B Prf. 1.96875p
Rank Org. 10.25p
Sidlaw 7½% Uns. Ln. 2003/08 3.75pc.
Spain (Kingdom of) 11¾% Ln. 2010 (Reg.) 5.875pc.
Tesco 4% Cnv. Bds. 2002 2pc.
Treasury 2½% IL 2001 £1.9083
■ TOMORROW
Associated British Foods 7½% Uns. Ln. 87/2002 3.75pc.
Do. 5½% Uns. Ln. 87/2002 2.75pc.
Centrovincial Estates 6¼% Uns. Ln. 88/93 3.125pc
Chapman Inds. 8½% 1st Mtg. Deb. 93/98 4.25pc.
Hercules Inc. 56cts.
London & New York Conv. Tst. 9% 2nd Mtg. Deb. 87/92 4.5pc.
M & G Commodity & General Fd. 2.8p
New Zealand 11½% (Reg.) 2014 5.75pc.
Renold 8% 1st Deb. 91/96 4pc.
Royal Dutch Petroleum (Reg.) FL3.35
Do. (Br.) FL3.35
Sotheby's Hldgs. (Reg.) 15cts.
Treasury 8% 2009 4pc.
■ WEDNESDAY SEPTEMBER 26
CH Industrials 3.625p
Exchequer 12¼% 1999 6.125pc.
Gold Fields Property 3.73738p
Gold Fields of S. A. 130cts.
Halliburton 25cts.
Hewlett-Packard 15cts.
Jersey Phoenix Tst. 2.125p
New Wits 6.85187p
Oriflame Intl. SA (Reg. Lux.) 8p
Do. (Br.) 8p
Trafalgar House 9½% Uns. Ln. 2000/05 4.75pc.
Do. 8% Uns. Ln. 94/99 4pc.
Treasury 13½% 2004/08 6.75pc
Vaux 9⅞% Deb. 2015 4.9375pc.
Do. 10¾% Deb. 2019 5.375pc.
Do. 11¾% Deb. 2010 5.875pc.
Vogelstruisbult Metal 6.19061p
■ THURSDAY SEPTEMBER 27
Bradstock 2.5p
Cardiff Automobile Receivables Sec. (UK) Fltg. Rate Nts. 1995 £321.71
Mersey Docks & Harbour 6¾% Red. Deb. 96/99 3.375pc.
National & Provincial Bldg. Soc. Fltg. Rate Nts. 1998 £189.83
Nationwide Anglia Bldg. Soc. Fltg. Rate Nts. 1996 £189.26
■ FRIDAY SEPTEMBER 28
Alexander & Alexander Servs. 25cts.
Do. Class C 13.47p
Arlen 3.3p
Ashley (Net) Cnv. Red. Prf. 4.125p
Audax Props. 11% Gtd. Deb. 2021 Series A 5.5pc.
Do. 11% Gtd. Deb. 2021 5.5pc.
SPB Inds. 7¼% Deb. 88/91 3.625pc.
Do. 10¾% Deb. 94/99 5.375pc.
Do. 10¼% Deb. 97/2002 5.125pc.
Bank fur Arbeit und Wirtschaft AG Sub. Fltg. Rate Nts. 2000 $477.22
Black & Decker 10cts.
Bowthorpe Hldgs. 8% Deb. 88/93 4pc.
Bristol Evening Post 10¾% Mtg. Deb. 91/96 5.375pc.
British Airways Capital 9¾% Cnv. Cap. Bds. 4.888358pc.
CLF Yeoman/Yeoman Hldgs. 4.15p
Canadian Imperial Bank of Commerce Fltg. Rate Dep. Nts. 2005 $431.00
Central & Sherwood 0.1p
Continental Illinois O'seas Fin. NV Gtd. Fltg. Rate Sub. Nts. 1994 $216.44
Crystalate Hldgs. 8¼% Cnv. Uns. Ln. 2003 4.125pc.
ECC 8.8p
EMAP 7¼% Deb. 88/91 3.625pc.
Electric & General Inv. 2p
Fleming Claverhouse Inv. Tst. 3.8p
GW O'seas Fin. NV Gtd. Fltg. Rate Nts. 1994 $450.42
General Motors Acc. Continental 11¼% Nts. 28/9/92 5.625pc.
Genesis Emerging Mkts. Fd. Ptg. 15cts.
Girozentrale Und Bank Der Ost Spark Fltg. Rate Nts. 1991 $21.80
Globe Inv. Tst. 10% Deb. 2016 5pc.
Do. 11½% Uns. Ln. 90/95 5.75pc.
Grafton 2.5p
Green Property 1.2p
Greenhaven Securities 7½% Uns. Ln. 91/96 3.75pc.
Grindlays Eurofinance BV Fltg. Rate Nts. 1992 $451.64
Halifax Bldg. Soc. Fltg. Rate Ln. Nts. 1996 (Ser. B) £392.70
Do. Fltg. Rate Ln. Nts. 1996 (Ser. A) £57.84
Hay (Norman) 0.5p
Higgs & Hill 8¼% Deb. 89/94 4.125pc.
Do. 8% Uns. Ln. 89/94 4pc.
Hill & Smith Hldgs. 1.95p
Invicta Sound 0.75p
IOM Steam Packet 2p
Jones, Stroud Hldgs. 10% Prf. 5p
Kakuzi 70Kncts.
Kemira Fltg. Rate Nts. 1995 $450.42
Kleinwort Benson Fin. BV Gtd. Fltg. Rate Nts. 1996 $448.66
Land Securities 10% 1st Mtg. Deb. 2025 5pc.
Do. 9% 1st Mtg. Deb. 96/2001 4.5pc.
Do. 6¼% 1st Mtg. Deb. 93/98 3.125pc.
Do. 8½% Uns. Ln. 92/97 4.25pc.
Do. 6⅞% Uns. Ln. 94/99 8.125pc.
Logitek 2.6p
London Cremation 10% Prf. 3.5p
Lookers 2p
Martin Marietta 33.75cts.
Merlin Intl. Green Inv. Tst. 1.8p
Mid-Sussex Water 3.325% (Frmly. 4¾%) Irrd. Prf. 1.6625p
Milk Marketing Board Fltg. Rate Nts. 1993 £187.77
North American Gas Inv. Tst. 1.125p
Northern Telecom 9cts.
Oceonics 9¼% Red. Prf. 1993 4.625p
Palmerston Hldgs. 5.75p
Public Service Enterprise 30cts.
Radius 0.9p
River & Merc. Geared Cap & Inc. Tst. 1.4p
Royal Bank of Canada Fltg. Rate Debs. 2005 $63.88
Royal Bank of Scotland Ser. A Dollar Prf. 70.3125cts.
Scotland Intl. Fin. BV Gtd. Fltg. Rate Nts. 1992 $225.21
Scottish Cities Inv. Tst. 5% Prf. 1.75p
Scottish Life Assurance 7¼% Uns. Ln. 97/2002 3.5625pc.
Scottish National Tst. Stepped Prf. 2.75625p
Do. 10% Deb. 2011 5pc.
Securicor 0.616p
Do. A NV 0.616p
Do. 6½% Ptg. Prf. 2.275p
Security Servs. 1.291p
S. A. Breweries 7% Red. Prf. 3.5cts.
Southend Property Hldgs. 2.25p
Do. Pfd. 3.75p
State Bank of New South Wales 14¼% Sub. Nts. 1999 7.125pc.
State Bank of Victoria Gtd. Und. Var. Rate Cap. Nts. $226.04
Staveley Inds. 5¼% Prf. 1.8375p
Do. 7½% Uns. Ln. 86/91 3.75pc.
Do. 7½% Uns. Ln. 88/93 3.75pc.
Sutherland Hldgs. 0.65p
TR Trustees 1.9p
TSB Perp. Fltg. Rate Nts. £386.75
Temple Bar Inv. Tst. 4.1p
Tor Inv. Tst. 6% Prf. 2.1p
Do. 4¾% Prf. 1.6625p
Unidare 3.9p
United Kingdom Fltg. Rate Nts. 1996 $207.64
Vantage Securities 0.6p
Vickers 5% 1.75p
Do. 5% Prf. (Tax free to 30p) 2.5p
Do. 5% Prf. 1.75p
Ward White 3½% Red. Prf. 49/2000 1.75p
Wells Fargo Fltg. Rate Sub. Cap. Nts. 1997 $214.66
Do. Fltg. Rate Sub. Nts. 1992 $63.97
Do. Fltg. Rate Sub. Nts. 2000 $84.17
Wintrust 5.9p
Yorkshire Intl. Fin. BV Gtd. Fltg. Rate Nts. 1994 £183.54
■ SATURDAY SEPTEMBER 29
Allied London Props. 8½% Cnv. Uns. Ln. 1999 4.25pc.
British-American Tobacco 5% Prf. 1.75p
Charlwood Alliance Hldgs. 7½% Uns. Ln. 3.75pc.
Guaranteed Export Fin. 12⅞% Gtd. Ln. 2002 (Reg.) 6.4375pc.
Do. 12⅞% Gtd. Ln. 2002 (Br.) 6.4375pc.
Investors Capital Tst. 7¼% Deb. 92/97 3.625pc.
Manchester 3% Red. 1928 (or after) 1.5pc.
New Frontiers Dev. Tst. 6½% Cnv. Uns. Ln. 2010 3.25pc.
Prospect Inds. 0.1p
Shires Inv. 11% Cnv. Uns. Ln. 2003/04 5.5pc.
Tendring Hundred Waterworks 4½% Deb. Red. 2.25pc.
■ SUNDAY SEPTEMBER 30
API 3.85% Prf. 1.925p
Aaronson Bros 4¼% Red. Prf. 2.125p
Allnatt London Props. 9¼% 1st Mtg. Deb. 96/2001 4.625pc.
Associated British Eng. 4.9% Prf. 2.45p
Do. 8% Cnv. Red. Prf. 4p
Atlantic Metropolitan (UK) 12% Cnv. Uns. Ln. 91/97 6pc.
Automotive Prods. 2.55% 2nd Prf. 2.275p
Do. 9% Prf. 4.5p
Do. 3.5% Prf. 1.75p
Bank of Ireland (Gov. & Co. of) 7% Ln. 86/91 3.5pc.
Barrow Hepburn 7¾% Prf. 3.875p
Bass Invs. 7¾% Uns. Ln. 92/97 3pc.
Do. 6% Uns. Ln. 85/90 3pc.
Bass 7% Prf. 2.45p
Do. 4% Prf. 1.4p
Do. 10.65% Deb. 96/99 5.325pc.
Do. 10⅜% Deb. 2016 5.1875pc.
Do. 3¼% Deb. 87/92 1.625pc.
Do. 8¼% Deb. 87/92 4.125pc.
Do. 7¾% Uns. Ln. 92/97 3.875pc.
Do. 4½% Uns. Ln. 92/97 2.25pc.
Bellway 9½% Red. Prf. 2014 4.75pc.
Bibby (J.) 4.2% Prf. 2.1p
Birmid Qualcast 7½% Uns. Ln. 87/92 3.75pc.
Blackwood Hodge 5¾% Prf. 2.875p
Boddington 4% Deb. Perp. 2pc.
Boots 7¾% Uns. Ln. 88/93 3.875pc.
Boot (Henry) 5¼% Prf. 2.625pc.
Boscombe Property 5% 1st Prf. 1.75p
Bristol & West Hotels 7¾% 1st Mtg. Deb. 87/92 3.875pc.
British Inv. Tst. 11⅛% Sec. Deb. 2012 5.5625pc.
British Land 10½% Dfd. 1st Mtg. Deb. 2019/24 5.25pc.
Brixton Estate 11¾% 1st Mtg. Deb. 2018 5.875pc.
Brown (John) 4⅞% Sec. Ln. 2003 2.4375pc.
Do. 5⅝% Sec. Ln. 2003 2.8125pc.
Bruntcliffe Invs. 7% Prf. 2.45p
Burtonwood Brewery 8¼% Deb. 89/94 4.125pc.
Cable & Wireless 7% Cnv. Uns. Ln. 2008 3.5pc.
Century Oils 5¼% Prf. 2.625p
Churchbury Estates 9% Uns. Ln. 2000 4.5pc.
City Site Estates 10% Cnv. Red. Prf. 1p
Do. 5¼% Cnv. Red. Prf. 2.625p
Do. 10½% 1st Mtg. Deb. 2017 5.25pc.
City & Commercial Inv. Tst. 3.93p
City & Westminster 10% Cnv. Uns. Ln. 1998 5pc.
Coats Viyella 4.9% Prf. 2.45p
Continental Bank 25cts.
Courtaulds Coatings Hldgs. 8¼% Uns. Ln. 90/95 4.125pc.
Courtaulds 7¾% Deb. 89/94 3.875pc.
Do. 7¾% Uns. Ln. 2000/05 3.875pc.
Courts (Furnishers) 3.17p
Cowie (T.) 10½% Cnv. Red. Prf. 5.25p
Credit Foncier De France 14¾% Gtd. Ln. 2007 (Reg.) 7.375pc.
Crosby Woodfield 10% Prf. 5p
DAKS Simpson 5% Prf. 1.75p
Davenports Brewery 4% Deb. 2pc.
De La Rue 2.45% Prf. 1.225p
Debenhams 6¼% 2nd Deb. 90/95 3.125pc.
Drayton English & Intl. Tst. 5½% Prf. 1.925p
Do. 8⅞% Prf. 4.4375p
Do. 10⅝% Deb. 2014 5.3125pc.
Drummond 8% Prf. 2.8p
Eastern Intl. Inv. Tst. 9½% Deb. 92/97 4.75pc.
Elliott (B.) 7¼% Deb. 90/95 3.625pc.
Do. 6½% Deb. 88/93 3.25pc.
Ellis & Everard 5% Prf. 1.75p
Emhart 6% Prf. 2.1p
Empire Stores 8¾% Deb. 91/96 4.375pc.
Do. 6⅞% Deb. 85/90 3.4375pc.
English & Scottish Investors 5% Prf. 1.75p
Essex Water 8⅝% Red. Prf. 1993 4.3125p
European Home Prods. 8⅞% Red. Prf. 2001/05 4.4375p
Do. 5¼% Cnv. Red. Prf. 2006/11 2.625p
Euston Centre Props. 10.4% 1st Mtg. Deb. 92/97 5.2pc.
Ewart 8½% Uns. Ln. 90/95 4.25pc.
Exchequer 12¼% 1999 6.125pc.
F & C Eurotrust 5¾% Cnv. Uns. Ln. 1995 2.875pc.
Fine Spinners & Doublers 4% 1st Mtg. Deb. Red. 2pc.
Fisons 5⅞% Uns. Ln. 2004/09 2.9375pc.
Foreign & Col. Inv. Tst. 5% Prf. 1.75p
Forminster 11% Prf. 5.5p
GATX 27.5cts.
GEI Intl. 10% Uns. Ln. 87/92 5pc.
General Elect. O'seas Capital 5½% £/$ Cnv. Gtd. Ln. 88/93 2.75pc.
Glynwed Intl. 10¾% Uns. Ln. 94/99 5.375pc.
Goved Strategic Inv. Tst. 11½% Deb. 2014 5.75pc.
Grainger Tst. 11¾% 1st Mtg. Deb. 2024 5.875pc.
Great Portland Estates 8¼% 1st Mtg. Deb. 90/95 4.125pc.
Do. 9½% 1st Mtg. Deb. 2016 4.75pc.
Greenall Whitley 8% Prf. 4p
Gresham Tst. 8% Gtd. Uns. Ln. 88/93 4pc.
Do. 7¼% Gtd. Uns. Ln. 88/91 3.625pc.
Do. 6½% Gtd. Uns. Ln. 88/93 3.25pc.
Greycoat 12.85% Gtd. Uns. Ln. 90/92 6.425pc.
Grosvenor Dev. Capital 7½% Cnv. Uns. Ln. 1999 1.875pc.
GRE Assurance 7% Red. Prf. 2.45p
Halma 5.5p
Haslemere Estates 10¼% 1st Mtg. Deb. 98/2003 5.125pc.
Hestair Consumer Prods. 6% Uns. Ln. 85/95 3pc.
Hill & Smith Hldgs. 14p 1st Mtg. Deb. 2000/03 2p
Holmes & Marchant 3.3p
Housing Fin. 5% Deb. 2027 2.5pc.
Do. 7% Deb. 2009 (Ser. 2) 3.5pc.
Do. 7% Deb. 2009 3.5pc.
Hoyle (Joseph) 5% Prf. 1.75p
IWP Intl. 12% Prf. 4.32p
Inchcape 5¼% Red. Prf. 90/92 2.625p
Do. 8½% Red. Prf. 90/92 2.975p
Do. 10½% Uns. Ln. 90/95 5.25pc.
Do. 12½% Uns. Ln. 93/98 6.25pc.
Inco Eng. Prods. 8% Deb. 87/92 4pc.
Do. 11% Deb. 98/2001 5.5pc.
Johnson & Firth Brown 11.05% Prf. 5.525p
Johnston 10% Prf. 5p
Kelsey Inds. 11¼% Prf. 5.625p
Keystone Inv. 5% Prf. 1.75p
Laporte 7½% Prf. 2.625p
Do. 5½% 2nd Prf. 1.925p
Do. 5¾% Deb. 88/93 2.875pc.
Do. 8% Deb. 93/98 4pc.
Do. 10¼% Deb. 94/99 5.125pc.
Law Land 7½% 1st Mtg. Deb. 86/91 3.75pc.
Leigh Interests 6% Cnv. Red. Prf. 3p
Lloyd (F. H.) Hldgs. 7¾% Uns. Ln. 81/91 3.875pc.
London Merchant Securities 10% 1st Mtg. Deb. 2018 5pc.
Lonrho 10¼% 1st Mtg. Deb. 97/2002 5.125pc.
Lookers 8% Cnv. Red. Prf. 4p
Lovell (Y. J.) Hldgs. 8½% Deb. 87/92 4.25pc.
M & G Capital Fd. 8.8p
Do. Equity Inc. Fd. 7.3p
Do. Gilt & Fixed Int. Inc. 1p
Do. Smaller Co's Fd. 0.64p
MEPC 3.65% Prf. 1.825p
Do. 12% 1st Mtg. Deb. 2017 6pc.
Do. 9¾% 1st Mtg. Deb. 97/2002 4.875pc.
Do. 8% Uns. Ln. 2000/05 4pc.
Macarthy 6% B Prf. 2.1p
Do. 5½% B Red. Prf. 1.925p
Marston, Thompson & Evershed 7% Uns. Ln. 93/98 3.5pc.
Metropolitan Rly. Surplus Lands 6½% 1st Mtg. Deb. 88/91 3.25pc.
Do. 6¼% 1st Mtg. Deb. 88/91 3.125pc.
Michelin Tyre 9½% Deb. 92/97 4.75pc.
Morland 5% Prf. 1.75p
Mucklow (A & J) 6¾% 1st Mtg. Deb. 89/94 3.375pc.
Do. 7½% 1st Mtg. Deb. 90/95 3.75pc.
Do. 13¼% 1st Mtg. Deb. 2000/05 6.625pc.
NMC 7¾% (Net) Red. Cnv. Prf. 3.875p
New Throgmorton Tst. (1983) 12.6% Deb. 2008 6.3pc.
Newcastle-Upon-Tyne (City of) 11¼% Red. 2017 5.625pc.
North Devon Water Board 4% 1996 Red. 2pc.
Northern Eng. Inds. 8⅜% Uns. Ln. 88/93 4.1875pc.
OK Bazaars (1929) 6% 1st Prf. 6cts.
Do. 5% 3rd Prf. 5cts.
Oldham Met Borough Council 12.4% Red. 2022 6.2pc.
Oliver 5¼% Prf. 2.625p
P & O Property Hldgs. 7¼% 1st Mtg. Deb. 91/96 3.625pc.
Do. 6¾% 1st Mtg. Deb. 89/94 3.375pc.
Do. 8% Uns. Ln. 97/99 4pc.
Pearson 8¼% Uns. Ln. 88/93 4.125pc.
Do. 6.975% Uns. Ln. 88/93 3.4875pc.
Do. 5.675% Uns. Ln. 88/93 2.8375pc.
Peel South East 8¼% Uns. Ln. 87/97 4.125pc.
Petroleos Mexicanos 14½% Ln. 2006 7.25pc.
Phoenix Timber 6% Prf. 2.1p
Pillar Electrical 7½% Uns. Ln. 88/91 3.75pc.
Portsmouth Water 10⅝% Red. Deb. 1996 5.3125pc.
Do. 13% Red. Deb. 1994 6.5pc.
Do. 14% Deb. 1992 7pc.
Do. 3% Perp. Deb. 1.5pc.
Priest, Marians Hldgs. 6½% Cnv. Uns. Ln. 2000/03 3.25pc.
Property Hldg. & Inv. Tst. 7% 1st Mtg. Deb. 90/95 3.5pc.
RIT Capital Partners 2½% Cnv. Uns. Ln. 2000 1.25pc.
Readicut Intl. 6% Prf. 1.05p
Do. 5¾% 2nd Prf. 2.0125p
Do. 8¾% Uns. Ln. 88/93 4.375pc.
Reckitt & Colman Cap. Fin. 9½% Cnv. Cap. Bds. 2005 1.3534p
Renold 6¾% 1st Deb. 90/95 3.375pc.
Richards 7½% Deb. 87/92 3.75pc.
Rights & Issues Inv. Tst. 2p
River & Merc. Tst. 8½% Deb. 89/94 4.25pc.
Rockware 8% Uns. Ln. 95/99 4pc.
S & U Stores 6% Prf. 2.1p
SEP Indl. Hldgs. Pfd. 0.9586p
Salvesen (Christian) 5.6% Prf. 2.8p
Scapa 8% Uns. Ln. 88/93 4pc.
Scottish Mortgage & Tst. 8-14% Stepped Int. Deb. 2020 7pc.
Scottish & Merc. Inv. Tst. 7½% Prf. 2.625p
Securities Tst. of Scotland 4½% Prf. 1.575p
Do. 12% Deb. 2013 6pc.
Senior Eng. 1.08p
Do. 9.6% Uns. Ln. 91/96 4.8pc.
Sketchley 4.2% Prf. 2.1p
Smith New Court 12% Sub. Uns. Ln. 2001 6pc.
Smith St. Aubyn Hldgs. 6% Prf. 2.1p
Do. 9½% 2nd Prf. 4.75p
Do. 7% Sub. Uns. Ln. 86/91 3.5pc.
Smith (W. H.) 5¾% Prf. 2.875p
Do. 3¾% Red. Prf. 1.875p
Stag Furniture Hldgs. 11% Prf. 5.5p
Standard Chartered 12⅞% Sub. Uns. Ln. 2002/07 6.4375pc.
Sterling Estates 8% 1st Mtg. Deb. 88/93 4pc.
Sterling Inds. 5½% 1st Prf. 1.925p
TSB Hill Samuel Bank Hldg. 8% Uns. Ln. 89/94 4pc.
Tate & Lyle 6½% Prf. 2.275p
Do. 7¾% Deb. 89/94 3.875pc.
Do. 8% Uns. Ln. 2003/08 4pc.
Do. 10¾% Uns. Ln. 2003/08 5.375pc.
Tendring Hundred Waterworks 7½% Red. Deb. 91/93 3.75pc.
Tootal 5% Prf. 1.75p
Trafford Park Estates 11¾% 1st Mtg. Deb. 2007/10 5.875pc.
Transport Dev. 9¼% Uns. Ln. 95/2000 4.625pc.
Treasury 15½% Ln. 1998 7.75pc.
Treforest Silk Printers 6% Prf. 2.1p
Trimoco Fin. 11½% Cnv. Uns. Ln. 1996 5.75pc.
Triplex Lloyd 5½% Prf. 1.925p
Unigate 3.9% Prf. 1.95p
Do. 4.95% Prf. 2.60219p
Do. 5% Uns. Ln. 91/96 2.5pc.
Do. 6½% Uns. Ln. 91/96 3.25pc.
VSEL Consortium 11% Uns. Ln. 1998 5.5pc.
Volex 7% Prf. 2.45p
Warburg (S. G.) 7⅝% Prf. 3.8125p
Do. 6% Cnv. Prf. 3p
Warner Estate Hldgs. 6½% Uns. Ln. 91/96 3.25pc.
Warner Holidays 6¼% Prf. 2.1875p
Waterglade Intl. Hldgs. 7¾% Cnv. Red. Prf. 3.875p
Watney, Mann & Truman Hldgs. 6½% Red. Deb. 88/93 3.25pc.
Do. 5% Red. Deb. 2000 2.5pc.
Do. 12⅛% Red. Deb. 2008 6.0625pc.
Do. 6½% Red. 87/90 3.25pc.
Do. 7¾% Red. Deb. 88/93 3.875pc.
Westland 12⅜% Deb. 2008 6.1875pc.
Do. 7¾% Deb. 87/92 3.875pc.
Westminster Scaffolding 2p
Whitbread Inv. 7-12% Stepped Int. 2nd Deb. 2010 5.5pc.
Whitbread 4½% Red. Deb. 99/2004 2.25pc.
Wigfalls 6% Prf. 2.1p
6¾% Uns. Ln. 94/99 3.375pc.
Wilkinson & Riddell Hldgs. 5% Prf. 2.5p
Williams Hldgs. 10¾% Prf. 5.375p
Do. 10¾% Prf. 5.375p
Wilson (Connolly) Hldgs. 8¼% 1st Mtg. Deb. 90/95 4.125pc.
Wintrust 5¾% Cnv. Prf. 2.875p
Do. 10½% Prf. 5.25p
Wyndham 9¾% Cnv. Red. Prf. 5.47p

APPOINTMENTS

Underwriter moves at A.J. Archer

■ A.J. ARCHER & CO, a subsidiary of A.J. Archer Holdings, has made the following changes from October 1. At Non-Marine Syndicate 544 Mr Michael Hart has been appointed deputy underwriter, North America; and Mr Christopher McGinn, deputy underwriter, UK. Mr Derek Dolling-Baker, deputy underwriter, has retired through ill health. At Marine Syndicate 868/35 Mr Mark Massie has been appointed underwriter and Mr Alex Ballantine deputy underwriter, in preparation for the retirement of Mr A.J. Archer, underwriter, at the end of the year. Mr Peter Townsend has been appointed to develop a direct marine account for Marine Syndicate 1125 which has previously written exclusively excess loss.

■ J.O. HAMBRO MAGAN & CO has appointed Mr Richard Milne as director responsible for finance, administration and compliance. He was group secretary, Shandwick. Mr Charles Williams becomes assistant director, corporate finance. He was with N.M. Rothschild & Sons.

Mr John B. Cooper *(pictured)* has been appointed a main board director of BMC GROUP. He will remain managing director of the sand, gravel and readymix division.

■ Mr Peter H. Courtney has been appointed a non-executive director of HAYS. He was group finance director of the Boots Company until his retirement last June.

■ Mr Alastair Stewart has been appointed a director of STYLE CONFERENCES.

■ Mr Trevor Newton, group finance director, has been appointed deputy chairman of YORKSHIRE WATER from October 1. He succeeds Mr David Cramb who becomes a non-executive director. Mr Newton retains responsibility for group finance.

■ Mr Joe Cuesta has been appointed sales and marketing director, specialist homes division, at BALFOUR BEATTY HOMES. He was sales and marketing manager at Aria Estates.

■ Mr David Tebbutt has been appointed chairman and group editor of CLOUDY BAY PUBLICATIONS, a Richbell Group subsidiary. Mr Derek Cohen becomes managing director and editor of Strategy.

■ ARCO, Hull, has appointed Mr Alan E. Thomas as financial director. Mr William J. Bramley becomes a divisional director responsible for industrial rubber products.

HUNT INTERNATIONAL, part of the James Galt Group, has made the following promotions: Mr Mike Holroyd *(pictured)*, from sales manager to sales director; Mr Bill Dickens, to production director; and Mr Geoff Barker, from management accountant to company secretary. The company makes and instals playground equipment, and recently launched the "young explorer" and "adventure play" systems.

MITSUI REAL ESTATE DEVELOPMENT CO., LTD. YEN 30,000,000,000. FLOATING RATE NOTES DUE 1995

Notice is hereby given that for the Interest period from 20th September 1990 to 20th December 1990, the rate of Interest will be 7.1% per annum. The Interest payable on 20th December 1990 will be Yen 177,014. per each Yen 10,000,000. Note.
Agent Bank
The Mitsui Trust & Banking Co., Ltd., London.

LEGAL NOTICE

STREATLEY CARRIAGE COMPANY LIMITED

NOTICE IS HEREBY GIVEN, pursuant to section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above named company will be held at Cork Gully, 9 Greyfriars Road, Reading RG1 1JG at 11.30 am on 28 September 1990 for the purpose of having laid before it a copy of the report prepared by the Administrative Receivers under Section 48 of the said Act. The meeting may, if it thinks fit, establish a committee to exercise the functions conferred on creditors' committees by or under the Act.

A proxy form is sent herewith. Creditors whose claims are wholly secured are not entitled to attend or be represented at the meeting. Other creditors are only entitled to vote if:

(a) they have delivered to us at the address shown below, no later than 1200 hours on 27 September 1990, written details of the debts they claim to be due to them form the company, and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and
(b) there has been lodged with us any proxy which the creditor intends to be used on his behalf.

Please note that the original proxy signed by or on behalf of the creditor must be lodged at the address mentioned; photocopies (including faxed copies) are not acceptable.

N J Vooght
Joint Administrative Receiver
Date: 13 September 1990

Address to which proxies should be delivered:
Cork Gully, 9 Greyfriars Road, Reading, Berkshire RG1 1JG

ARTS

ARCHITECTURE

Bold civic statement

Imagine yourself the builder of one of the great Victorian town halls of Britain taking a rest outside one of the magnificent edifices in Manchester, Leeds, Cardiff, Belfast or Rochdale. Glancing up at your towering achievement, what a sense of pride you would feel in your town and in the civic virtues embodied in your great municipal cathedral.

New town halls today are rare and sadly tend to be seen as the home of the wicked poll tax collectors or as under siege, starved of funds by central government. It is hard to believe that a capital city of the size and importance of London has been forced by central government to sell its great seat of government, the County Hall, to the highest bidder for conversion into flats and offices. Greater London has no overall government and the decline of public services surely reflects the absence of any focus of civic pride.

It is therefore unusual to see a brand new town hall designed as the result of an architectural competition and built at the height of the poll tax rows and troubles. In the little town of Epping, in Essex, a small, but major, new civic building is now complete and almost fully occupied. The Epping Forest District Council held the competition in 1984-5 and in their brief asked for a "high quality design appropriate to its situation and setting." Richard Reid Architects were the winners, a firm that is based in Kent and best known for its unusual mixture of an understanding of the English traditional vernacular and an awareness of international architectural style and fashions. Richard Reid has always been eager to find a way of utilising his understanding of townscape to design new buildings that fit into their settings. The civic offices he has built for Epping District Council are a strong and bold statement that puts Epping onto the international architectural map, and an exercise in "townscape enhancement."

The town hall is on the current architectural map for another key reason. It embodies to a degree the current architectural dilemma. It follows the ideas of traditional building forms while at the same time adopting industrialised contemporary building methods. We are all becoming familiar with the steel or concrete frame clad in cavity brick construction or panels of suspended stone. We know that the building structure is such that it could be clad with glass or plastic but we have to try and believe the illusion that is built of bricks and solid masonry. It is a curious dilemma. The Modern Movement spent a lot of time trying to convince the world that architecture was visible, functional structure. The post-modern architect tries to complicate the structural tradition by hanging a variety of clothes on the invisible hangers.

It is not the architectural theory or debate that will concern most visitors to Epping. They will want to know two things: what does the new town hall look like and how well does it fit into the town? The town is still a handsome market town with a wide high street lined with agreeable inns and shops. Some of the shops are gabled and many are of painted weather boarding. There are two strong features that you cannot fail to notice – the Victorian water tower and the great tower of the parish church of St. John the Baptist, designed by the great church architect of the turn of the century, G. F. Bodley. This is a particularly striking tower with battlements and great decorated windows. The site for the town hall is at the northern end of the High Street where it widens out onto a large green where there are some good original Georgian houses and a lot of less interesting neo-Georgian ones.

It seemed right to the architect to give his design a large tower of brick. I think he was right to add a third great vertical statement to the town. It could be seen as representing civil government alongside the spiritual and utilitarian aspirations of the other two towers. This tower is four sided rising up to a smaller octagon above the clock. It is topped by a bold stone cornice and the top row of windows is a viewing room where the public can watch the gradual removal of London's Green Belt. There is also a grim reminder that London's country towns are really suburbs serving the Great Wen. You can see the rising tower of Canary Wharf – the cruelly out of scale tower that so clearly demonstrates the unplanned growth of London's Docklands.

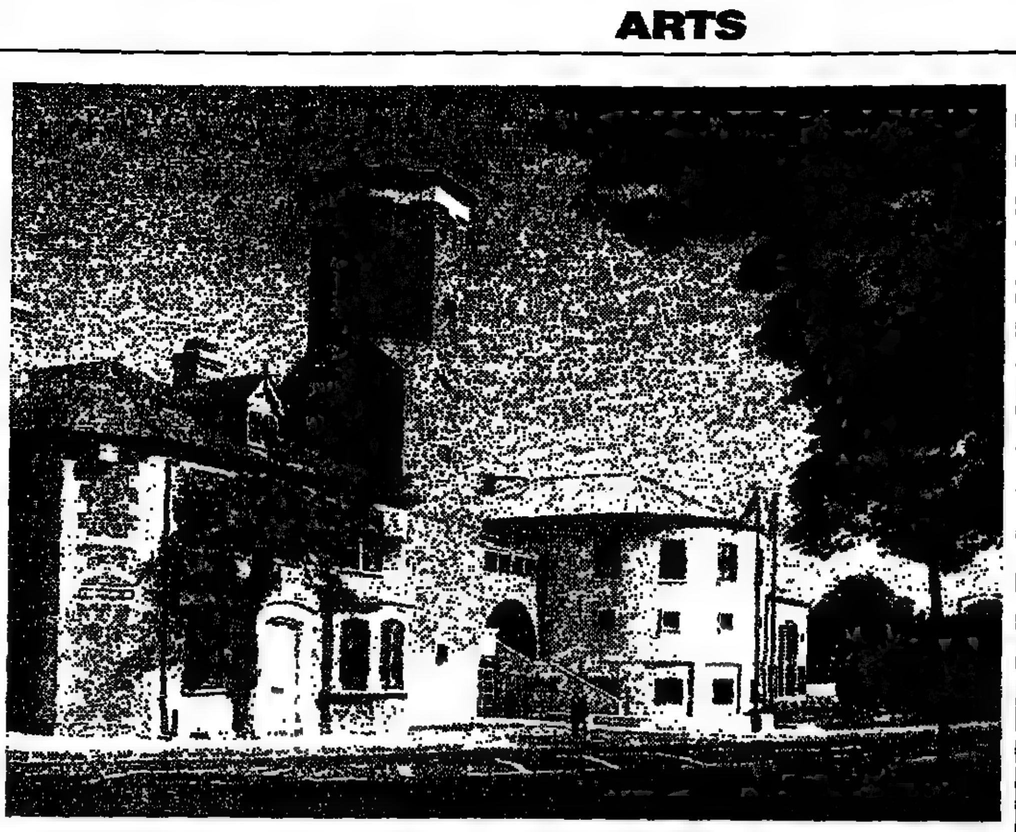
At ground level the tower is alongside the very handsome main entrance arch and the protruding curve of the cream rendered council chamber wall. These three elements each mark a significant function of the town hall and express it clearly in architecturally distinctive ways. A fourth element, the "mayoral" suite and chairman's office are also clearly expressed by a stone and rendered projection from the brick. Considering that a large part of the rest of this building is simply offices, I feel that Richard Reid has achieved a great deal by giving the town hall a real sense of civic authority without making it grandiose.

Inside, the finest architectural achievement is the horseshoe shaped lofty council chamber. The detailing of the furniture and the carefully planned inclusion of public galleries and the respectful use of colour make this a very fine room. Public waiting areas have an unusual character – the striped pink and white atrium is redolent of much American post modernism and has no particular connexion with the locality. There are only two commissioned works of art, agreeable figurative panels that portray local myths and legends by a local artist, Irene Reeve. There was surely scope for more decorative and commissioned work.

I have some problems with the overall scale of town hall in relation to the domestic nature of the site. The tower is strong and effective and the architectural articulation of the main facade is excellent, but the use of primary colours for the paintwork is pointless following of fashion and takes away from the seriousness of the design and composition.

Epping has acquired a building very much of our times that adds a strong architectural note to a modest town. I felt that the people Epping were lucky to have found Mr Reid, although I sense they are still feeling rather surprised.

Colin Amery



A third tower for Epping: Richard Reid's fine new town hall

Leeds Competition finals

LEEDS TOWN HALL/BBC2/RADIO 3

Talent-spotting aside, the most remarkable thing about this year's Harveys Leeds International Pianoforte Competition was quite unforeseen and unforeseeable, and surely a first-ever. A mass audience – the BBC's, in prime time on a Friday and a Saturday – was treated to an intensive course on Schumann's piano concerto, and in the perfect format. No bleeding extracts, no tendentious musicology, no verbal attempts to articulate the obvious or the inaudible; just four complete, rewardingly distinct performances, their differences – by no means always for "better" or "worse" – underlined by their having the same conductor and orchestra.

With his City of Birmingham Symphony, Simon Rattle played up to each of his soloists in turn with a flexible sympathy that was nothing short of astounding. There are opera conductors with the knack, but among the famous podium maestri of the day I doubt there are more than two or three (if that) who could match Rattle's feat. Inevitably there was one pianist whose way with the Schumann was temperamentally most attuned to Rattle, the 20-year-old German Lars Vogt (the second prizewinner), and together they generated a performance of glorious, crackling vitality.

It was good to hear Haesun Paik (fifth prize) in broadcast sound that revealed her sensitive virtues – heard live in the semi-finals, her lightweight tone and nervy fingers hadn't been flattered by the boomy Town Hall acoustic. Schumann's finale nevertheless stretched her to the limit. That was where Balazs Szokolay, the Hungarian E.T.-clone, struck his brightest form. In the most lyrical passages he was tight-lipped; but the fourth prize was fair enough for an idiosyncratically brilliant performer who will make his own way.

Probably Eric Le Sage, an immensely cultivated scion of the great French Schumann tradition (Schumann's piano music was honoured in France while the Brits were still imitating Mendelssohn), found the least natural rapport with Rattle. His serene, liquid address missed no musical point, but by the finale it was clear that the collaboration would remain a temperate affair, and he earned third prize. Yet Le Sage's *Carnaval* in the semi-finals had been seriously exciting; I tried to imagine how his concerto might have gone with, say, Jean Fournet as conductor.

Leeds winner, Artur Pizarro

The finale of Beethoven's Concerto no. 1, the choice of young Andrei Zheltonog (sixth prize), was downright deflated; he seemed to have been discouraged by earlier mishaps, though his real quality had been audible in the pensive Largo. No mishaps were expected with Artur Pizarro, the winner. Though he struck the occasional clanger in Rakhmaninov's Third, he is already a kind of master-pianist – and dared to take on the monstrous alternative cadenza: the underlying wildness of the concerto was felt. His precocious authority, his evident passion for the work and his fine-tuned conductor-partner secured a ringing result.

David Murray

Consort of Musicke

WIGMORE HALL

The authentic movement is approaching true respectability. At a time when performances on period instruments are starting to become generally accepted even in the classical and early romantic repertoire, it is useful to be reminded that the pioneers in the field are coming of age.

The Consort of Musicke is 21 this year. The souvenir booklet for its three evenings (plus Sunday morning coffee concert) at the Wigmore Hall over the weekend included a chronology of achievements that leaves no doubt as to the formative influence the group enjoyed in its early years. The changing membership that it documents also shows how the emphasis of the group has gradually shifted from instruments to voices.

In these four concerts the focus was exclusively on the six singers of the madrigal group, except for the opening Monteverdi evening which had instrumental accompaniment. With lutes, chitarroni, harp, organ and *harpsichords*, that would have been a fairly lavish affair in Monteverdi's day and the occasion was used by Anthony Rooley to make some pointed comparisons between the financial status of the arts then and in 1990.

The single opus on the programme was Monteverdi's Sixth Book of Madrigals. (Rooley, founder of the Consort of Musicke, was among the first to favour integral performances of an original publication.) In this music the quality of the singing, the artists' sense of balance and responsiveness to one another, hardly needs further commendation, though the emotional power they get from a piece like "Zefiro torna" still hits one afresh each time.

Item by item the remarkable variety of Monteverdi's imagination was done full justice: the pain and drama of "Ariadne's Lament," the light jocularity of "Qui rise, o Tirsi". The only serious regret is that it was not possible to hear more of the Italian words. It really is ironic to sit wondering what an important line said and then look down at the programme to find it was "My words were borne away upon the wind."

On Saturday the performers turned their attention to Vecchi and his humorous sketches. Enjoyable though these were, I feel there is something false about pieces of this kind being given like a charade with movements and self-conscious grins in the context of a public concert today. One of the most difficult issues yet to be tackled by the authentic movement is how to reproduce the atmosphere of an original performance.

Still, thanks to the Consort of Musicke and the other groups that have followed in their wake, there is now an audience for this music. If it was not as large a gathering at the Wigmore Hall on Saturday as it might have been, that was no reflection on the quality of the music-making. Rooley may have put up a spirited defence of the need to charge higher prices, but £21 as a top price is a bit steep – even for a 21st birthday.

Richard Fairman

Long at the Tate

Richard Long, winner of the 1989 Turner Prize, is to install three new works at the Tate occupying the entire length of the sculpture galleries. He is the first artist to be invited to fill this entire area, and the works can be seen from October 3 to January 6 1991.

A retrospective of Long's work will be presented at the Hayward Gallery from June 13 to August 11 1991.

The Marquis of Keith

Gate Theatre

Fearsome-looking (block-headed, hair cropped, side-burns like scars), Garry Cooper bursts out of the tiny Gate Theatre with his frightening and mesmerising interpretation of the title role in Wedekind's play.

It is Munich in 1899 and the Marquis is simultaneously at the centre and at the edge of the bizarre cafe society of the German city. In his own words "a cross between philosopher and horse thief," he is a cripple, a confidence trickster and an impressario, promoting his ambitious project – a Hall of Wonders in which his artistes can perform – to a shifting gallery of puffed up grandees and social climbers.

The amoral Keith may not be a marquis – he "came into the world a mongrel" – but he has no less valid a claim to a place in the Bavarian beau monde than the other mongrel counts and countesses. Social positions are unstable in this world, promotion and demotion rapid: from shop girl to diva, from jail bird to police commissioner.

Short of cash and unable to sell another Expressionist painting to tide himself over, Keith takes on the task of transforming the spineless and chinless Scholz (Adam Blackwood) into a bon viveur, accepting the commission with a mixture of distaste (for Scholz) and relish (for the money). Cooper plays the marquis more as horse thief than philosopher.

By contrast, when the accident-prone Scholz injures his leg during a firework party to launch Keith's project he simply becomes more ridiculous, for instance in his attempts to seduce Matilda Ziegler's alluring singer, a scene the director Mark Dornford-May is not afraid to milk for the laughs it deserves.

Dornford-May's production of this new translation by Steve Gooch is sure footed when it comes to this theme of self-confidence and confidence trickery. A strong cast conjures up the fragile atmosphere of a society in flux with great conviction, helped by Claudia Mayer's versatile design. Where they struggle is in convincing us about the attraction of the Marquis. But this is a small flaw in an exciting production. Any impressarios out there with an empty Hall of Wonders should take note: this play deserves a larger arena than the Gate, if only to accommodate Garry Cooper's performance.

Andrew Hill

Meredith Monk

ROYAL FESTIVAL HALL

Voice Over, a new British music festival, is designed simply to celebrate the human voice. Bulgarian, Indian, Russian, jazz, new-wave – the range is wide. No stars of the operatic firmament are announced; though the publicity doesn't say as much, this festival is alternative.

Certainly such a Voice Umbrella could have no more appropriate launch than Thursday night's, when Meredith Monk, with her vocal ensemble, presented a concert of her music, *Book of Days*. This music has vowels, consonants, syllables – but seldom words. Partly, she takes inspiration from the natural world; partly, she suggests language fragmented and eroded; partly, language is what she seeks to transcend. You want her to arrange Aristophanes' "brekekekex" frogs' chorus; but for her that would be child's play.

She began by herself. Of her 12 short solos, all save the last were unaccompanied. She herself has several voices, and she has developed elaborate techniques for all of them. You can hear how she has cultivated breathing, resonance, attack; but some of what she does is deliberately unclassical.

I guess that, if only she could, she, like Emma Calvé, would go study with a castrato; but instead she has studied from birds, instruments, jazz, and several different folk traditions. She'll add breathiness to one passage, sing while breathing in, or produce a rapid series of isolated notes like a woodpecker or gunfire.

It is small-scale vocalism, and she uses a microphone. While she is alone, I never regret this. She's a wholly absorbing performer, and, as you go on listening, you admire not just her accomplishment but also her wide-ranging humanity.

Two solos are in fact duets. Now she is high, young, now low, experienced and rebuking; and these things are the more affecting for being abstracted and wordless. You hear hints of jazz scat, folk ballad, Negro work song. And she can also be amazingly impersonal, as in the final solo in which she sings, breathes noisily and – simultaneously – plays a jew's harp. A true virtuoso.

The other three-quarters of the programme were with other singers, playing, with some instrumental accompaniment, excerpts from works old, recent and still in progress. Monk's music often uses the steady pulse and repetition of minimalism – but, to her, metre is never a rut to stick in or a trance to float in. These compositions always built from simple to complex.

To hints from one culture or period, they'd add aspects of others, until, time and again, I found my head happily brimful – when Monk would start a new tack. And often it was witty, lyrical or both. Nothing was more adorable than a Tokyo Cha-Cha, a hymn to "the most surreal of cities."

Alastair Macaulay

McCabe flute concerto

BARBICAN HALL

The latest National Tour of the London Symphony Orchestra – seven concerts in seven British cities over nine days, led by the orchestra's chief, Michael Tilson Thomas (and sponsored by Shell) – began on Thursday at home base, and offered one of the two featured programmes. For the tour the resident soloist, James Galway, had inspired a new flute concerto from John McCabe; Thursday's was its first performance, to be followed by two more (separated by four of Mozart's G major, K313) during the run.

McCabe is a composer who knows how to make his music "modern" but un-threateningly so; he also judges with masterly accuracy how to capitalise on the special gifts of his soloist – in this case, the fabled Galway virtuosity and confident projection of personality. The 20-minute, unbroken span of the concerto, in which four separate movements are subsumed, is notable above all for the ravishing interplay of flute and other woodwind (including two companion flutes spaced at opposite ends of the orchestra).

Flutters, swooping arabesques, games of follow-my-leader, and concluding hints of gigue and saltarello melodies are pursued while a large orchestra (big brass and percussion section) mostly sustains pedal-points or chattering repeated patterns beneath. The buzz of fast-moving parts which are at the same time static and decorative in effect (at times orientally so) is the concerto's "signature:" the musical texturing is cool (because well-ventilated), immensely elegant, captivating in detail.

I started out enjoying the musical progress inordinately, but about midway found myself becoming restless. Perhaps this was because by that time McCabe's repertory of patterns had become familiar, and because, apart from passages of post-Ravelian solo-flute wistfulness or languor, there didn't seem to be much actual content to bite into.

For all that it's an expertly made piece, evidently relished by Galway (who made the closing switch to alto flute a moment of beautiful contrast) and his accompanists. Altogether, the programme was a typically fresh, lively LSO-Tilson Thomas mixture: Beethoven's Eighth Symphony to open, *L'Après-midi d'un faune* (swooningly sensuous Debussy, finely achieved) and a properly sensational Janáček Sinfonietta to close.

Max Loppert

ARTS GUIDE

September 21-27

MUSIC

London

Quorum. Julia Munn (clarinets), Martin Pring (violin), Hugh McDowell (cello), Andy Spiceley (piano) with Martin Harvey (trombone) (Mon). Purcell Room (928 8800).
The London Classical Players conducted by Roger Norrington with Melvyn Tan (fortepiano), plays Brahms and Mozart (Tue). Queen Elizabeth Hall (928 8800).
Royal Philharmonic Orchestra conducted by Mark Elder with Elizabeth Connell (soprano). Linda Finnie (mezzo-soprano), Edmund Barhum (tenor), Willard White (bass) plays Verdi's *Requiem* (Wed). Royal Festival Hall (928 8800).
Sir Michael Tippett 85th Birthday Concert with The London Bach Orchestra. Conducted by John Lubbock with Teresa Cahill (soprano). Programme includes works by Corelli, Tippett and Mozart (Thur). Barbican Hall (638 8891).

Paris

Zurich's Collegium Musicum conducted by Paul Sacher. Martin,Dutilleux, Honegger (Mon). Théâtre des Champs Elysées (47203637).
Peter Schreier recital (Mon). Salle Gaveau (49530507).
Michael Ponti, piano. Chopin, Tchaikovsky (Wed). Salle Gaveau(49530507).
Ghent Vocal Collegium conducted by Philippe Herreweghe. Schütz (Wed). Saint-Louis des Invalides chapel (42302308).
Orchestre de Paris conducted by Semyon Bychkov, Orchestre deParis choir conducted by Arthur Oldham. Mozart, Beethoven (Wed, Thur). Salle Pleyel (45638873).
Orchestre National de France conducted by Manuel Rosenthal, Anne Queffelec, piano. Debussy (Thur). Théâtre des ChampsElysées (47203637).

Picardy

The 3rd Cathedrals' Festival brings oratorios, masses and cantatas to the cathedrals of Laon, Senlis, Abbeville, Soissons and Compiegne. Ends Oct 5. Free telephone information (052255220) and locally.

Amsterdam

Marjana Lipovsek (mezzo) accompanied by Gérard Wyss. Von Einem, Brahms, Mussorgsky (Tue). Concertgebouw (781 345).

Utrecht

Rotterdam Philharmonic with Frank Peter Zimmermann (violin). James Conlon conducting. Strauss, Mozart (Thur). Vredenburg (31 45 44).

Brussels

The Festival of Flanders has evolved over the past decade into a major European music festival. It will continue through the autumn with concerts and opera in auditoria, museums and chateaux across Belgium.
BRT Philharmonic Orchestra conducted by Alexander Rahbari with Don-Suk Kang in a programme of Debussy, Nielsen and Ravel (Fri). Palais des Beaux-Arts.
Ensemble Instrumental de France conducted by Aldo Ciccolini (piano) performing Mozart (Tues). Palais des Beaux-Arts.
Maurizio Pollini (piano) plays Beethoven, Boulez and Webern (Wed). Palais des Beaux-Arts.
La Petite Band and the Flanders opera chorus conducted by Sigiswald Kuijken perform Haydn's *Die Jahrezeiten* (Thur). Théâtre Royal de la Monnaie.

Antwerp

Festival of Flanders. Alban Berg Quartet play Bartok and Mozart (Sat). De Singel.
Luciano Pavarotti (tenor) with The Flanders Philharmonic Orchestra conducted by Leone Magiera, Andrea Griminelli (flute) (Sat). Sportpaleis (091-25 77 80).

Gent

Juillard String Quartet perform Hindemith, Mozart and Ravel (Tues). Festivalhal Bijloke-abdij (091-25 77 80).

Berlin

Dietrich Fischer-Dieskau Lieder recital, accompaniedby Hartmut Höl in songs by Hugo Wolf (Tues). Opera House.
Berlin Philharmonic Orchestra under Kurt Masur with Arleen Auger (soprano). Strauss and Beethoven (Sat, Sun); and conducted by Pinkas Steinberg with soprano KarenArmstrong. Poulenc and Stravinsky (Wed, Thur). Oper House.

Frankfurt

Frankfurt Opera and Museum Orchestra conducted by Garcia Navarro with Marcela Holzapfel (soprano) andAlicia de Larrocha (piano) play works by Hindemith, Mozart and Falla (Sun, Mon). Alte Oper.
Frankfurt Radio Orchestra under Erich Leinsdorf with Strauss,Brahms and Stravinsky (Thur). Alte Oper.

Milan

Uto Ughi (violin) in a concert of Brahms and Richard Strauss conducted by Christian Thielemann (Fri). Teatro Alla Scala(80.91.26).
Hermann Prey singing Beethoven and Brahms (Sat), Schumann and Wolf (Sun) and Schumann (Tues). Teatro Alla Scala (80.91.26).

New York

New York Philharmonic conducted by Zubin Mehta with Florence Quivar (mezzo-soprano) and the Westminster Symphonic Choir directed by Joseph Flummerfelt. Mahler (Tue); Zubin Mehta conducting with Evgeny Kissin (piano). Schubert, Stravinsky, Chopin (Tue); Marvis Martin (soprano). Barber, Strauss (Thur). Avery Fisher Hall, Lincoln Center (874 6770).
Los Angeles Philharmonic conducted by Andre Previn with Itzhak Perlman (violin). Beethoven, Barber, W. Schuman (Tue); Andre Previn conducting with Emanuel Ax (piano). Stucky, Beethoven, Vaughan Williams (Thur). Carnegie Hall (247 7400).
National Symphony Orchestra conducted by Mstislav Rostropovich, with Beaux Arts Trio. Sibelius, Artyomov (Tue); Mstislav Rostropovich conducts with Justus Frantz (piano). Mozart, Shostakovich (Thur). Concert Hall, Kennedy Center (467 4600).

Chicago

Chicago Symphony Orchestra conducted by Sir Georg Solti with Daniel Barenboim (piano). Bartok, Mahler (Thur). Orchestra Hall (435 3322).

Tokyo

Academy of St Martin-in-the-Fields conducted by Sir Neville Marriner. Schubert, Mozart, Beethoven (Mon); Mendelssohn, Mozart, Beethoven (Wed). Suntory Hall (289 9999).
I Solisti Veneti with Stanislav Bunin (piano). Vivaldi, Rossini, Mozart. Suntory Hall (Tues) (403 8011).
NHK Symphony Orchestra conducted by Yuzo Toyama, with Brigitte Fassbaender (alto). Francisco Araiza (tenor). Mahler. NHK Hall (Wed, Thur) (465 1781).
Tokyo Metropolitan Symphony Orchestra conducted by Okko Kam, with Reiko Watanabe (violin). Sibelius programme. Tokyo Bunka Kaikan (Thurs) (882 0727).
Christa Ludwig (mezzo) with Charles Spencer (piano). Schubert, Schumann, Brahms, Strauss. Tokyo Bunka Kaikan (Thur) (289 9999).

Save the Young Vic Campaign

John Malkovich, Juliet Stevenson and the company for Burn This at the Lyric Theatre, Shaftesbury Avenue, will donate a special matinee benefit performance for the Save the Young Vic Campaign on October 3 at 2.30pm.

Maintenance work is currently being carried out in the Young Vic Theatre as Phase 2 of its Campaign gets underway.

So far total raised stands at £135,000, and on October 28 the theatre reopens for The Save the Young Vic Festival (until October 4). This will kick off with a huge street carnival in The Cut and culminates in a celebrity Gala, an auction of memorabilia and an auction of promises.

FINANCIAL TIMES

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Entrepreneurs and the City

THE EVENTS at Polly Peck International over the last few weeks raise important questions about corporate governance and accountability. How can the free-wheeling style of a powerful entrepreneur, who created and continues to dominate his business, be reconciled with the responsibilities of a publicly quoted company?

Mr Asil Nadir of Polly Peck is not the first such entrepreneur to find such responsibilities irksome. Some of them have sought to take their companies private, as Mr Nadir tried to do, but that is a difficult operation for a company as large as Polly Peck. As long as they remain public companies, they have to accept some restraint on their freedom of action, but existing arrangements in the City are not well designed to provide that restraint.

Companies led by a buccaneering chief executive tend to attract a large and loyal band of private shareholders who are consciously pinning their hopes on that individual. He may be unconventional and he may regard his board as largely ornamental, but as long as he keeps profits rising they will support him. The big institutions, by contrast, are generally suspicious and shun the shares.

The ability of institutions to influence the behaviour of public companies is limited at the best of times, but in cases of this kind their leverage is even smaller. Indeed, an attempt by an institutional shareholder to strengthen the non-executive directors of Polly Peck has not been supported, despite general unhappiness about the composition of the board.

Personal fief

It might be said that cramping the style of the entrepreneurial leader would be bad for the company's business and thus bad for shareholders. The chief executive, warts and all, is the company; his drive and energy are responsible for its success. But the fact is that the business is not his to run as a personal fief.

A public quotation provides access to funds with which the company can make acquisitions and grow even faster. In return, there is an obligation to conform to the rules, both statutory and non-statutory, which by requiring full disclosure and accountability safeguard the health of the system as a whole. The danger is that, if there are no checks and balances within the company, the buccaneering boss will be tempted to bend the rules. The consequences can be even more disastrous for shareholders than curbs on his management style would have been.

Public interest

There is a public interest in ensuring that companies adhere both to the letter and the spirit of the rules. In this respect non-executive directors, institutional investors and other City firms which do business with the entrepreneur-led companies all have a part to play.

The problem is that, although much lip-service is paid to the importance of non-executive directors in monitoring the chief executive, in practice there are serious doubts about their ability and willingness to do this job effectively. This is as true in the US as it is in the UK. Certainly there are some non-executive directors who take their job seriously and devote time and effort to it. Too often, however, especially in companies where a single individual wields great power, non-executive directors do not have sufficient independence or stature to stand up to the chief executive.

It is hard to see how this state of affairs can be changed without one of two possible changes. Either there must be new legislation on the composition of boards of directors; or there must be collective action by institutional investors to redefine the role of outside directors, not just in particular troubled companies, but in the system as a whole. Such changes would deal with the nature of the monitoring function, the method of appointing and rewarding outside directors, and their detailed responsibilities.

The situation at Polly Peck has now reached the point where an investigation by Department of Trade inspectors is needed, as the company itself requested yesterday. But the underlying issue of corporate governance also needs to be addressed.

New rivals for British Telecom

THERE IS widespread agreement that more competition is needed in the UK telecommunications markets. The current duopoly of British Telecom and Mercury Communications, which the government is reviewing later this year, has only had modest success in delivering greater choice and lower prices to the customer.

However, it is less well appreciated that introducing more competition will at the same time require tougher regulation of BT. Otherwise, new players will make slow progress and may even be deterred from competing at all. BT argues that more competition should lead to less regulation. This will be true when Britain has a fully competitive telecommunications market but it cannot be the right policy during the period of transition.

There is a long way to go. BT has a 95 per cent share of the market in phone calls. Its vast size means it has the potential to overcharge customers and squash rivals. The Office of Telecommunications, which was established to regulate the industry at the time of BT's privatisation in 1984, has been fairly successful in stopping abuses of monopoly power. But it has had neither the authority nor the manpower to be completely effective.

Oftel pioneered the widely acclaimed price cap formula (RPI-X) for ensuring that BT passed on the benefits of technological improvements to its customers in the form of lower real prices. But international prices were left out of the formula – partly due to a shortage of manpower – and only recently has the watchdog studied the excessive prices people are being forced to pay to call abroad.

No authority

Lack of the necessary authority, meanwhile, is the reason given by Sir Bryan Carsberg, Oftel's director general, for refusing to divulge information on BT's costs.

It is important to crack this monopoly on information for two reasons. It would make it easier for new companies to enter the market if they had better statistics. And it would lead to a wider public debate on telecommunications policy.

The economics of telecommunications gives BT an even greater dominance than its 95 per cent market share might suggest. The reason is that phone networks are only valuable if many people are connected to them.

New competitors which have only small networks are therefore desperate to connect to BT's network; but BT, which already has a nationwide network, sees little point in connecting to theirs. This imbalance of power gives BT much room to delay its rivals as the long running disputes between BT and Mercury over interconnection have shown.

Formal procedures

As more competitors enter the market, formal procedures will be needed to ensure that they can get access to BT's network where and when they want, and at a fair price. One way of achieving this would be to require BT to disaggregate its services – local, long-distance and international – into separate businesses and force these to deal with new competitors on the same terms as they deal with each other. This could be backed up by making BT publish separate accounts for the different businesses to ensure that it was not cross subsidising one from another.

Two further measures are desirable if rivals are to be able to compete on an equal basis. First, they should be able to get "equal access" to BT's local network, meaning that customers with BT lines would dial different codes depending on which long distance operator they wished to use. Second, anybody wanting to give up their BT line and switch to another company should be able to keep the same phone number.

BT will have to invest in new technology if its network is to be opened up to competitors in this way. Rather than waiting for the company to make the necessary changes in its own time, the government should set deadlines.

BT may complain that all this is excessively dirigiste. However, in so far as it hastens the advent of true competition, it will also bring nearer the time when BT is free from regulation.

The radical reforms unveiled under the Shatalin plan may yet prove too late to save the Soviet economy, writes **Quentin Peel**

Savage surgery on the body economic

THE truth about the brave and revolutionary Soviet reform programme drafted by Professor Stanislav Shatalin and his fellow marketeers is that the treatment is right, but it may be too late. They have abandoned the ideological blinkers which have left the country locked in a time-warp since 1917, and embraced once more the ideas of private property and an enterprise economy.

But the cancer in the Soviet body economic, not to mention politic, may already be inoperable. There was a air of complete unreality about the urgent debates in the Supreme Soviet of the USSR last week, as the deputies agonised over which programme to adopt – the Shatalin plan, or the far less coherent document drafted by the Soviet government under Mr Nikolai Ryzhkov and Dr Leonid Abalkin, the prime minister and deputy premier.

They were talking about theories and principles, when all the news from around the country was of accelerating economic disintegration.

From the north came the news that Leningrad and Estonia have agreed to set up customs posts between them, to control the movement of food and consumer goods. From Sverdlovsk, the industrial heart of the Urals, came a formal warning to the president that the city will suspend delivery of its industrial products if it does not get its food supplies.

Even just outside the Kremlin walls, the shops of Moscow are now far worse supplied than they are in central Asia or the Caucasus. The city has so far no stocks of potatoes for the winter, and is begging for permission to barter its industrial products for food.

Rationing and emergency measures have eased the shortages of bread and cigarettes, but the latest crisis is over egg supplies – the market price last week hit Rbs1 (£1) for the tiniest pullets' eggs. In the state shops, there are none.

Economic statistics almost certainly underplay the gravity of the economic crisis. The two most critical areas today are food supplies, and energy. All the evidence suggests that the bumper harvest is still rotting in the fields, with only 30 per cent gathered in many regions. The city workers who traditionally used to help, are refusing to work at less than bonus wages, and where the food has been gathered, the farms are hanging on to it in the expectation of price rises.

As for oil, the world's largest producer is now importing emergency supplies of petrol and aviation fuel, because of a combination of declining production, equipment shortages, industrial unrest, transport bottlenecks, and a complete absence of serious energy conservation.

Figures for the first eight months of the year show a 5 per cent fall in output of both oil and coal, although gas was up 3 per cent. The planned production of 602m tonnes for the year was revised downwards to 575m tonnes in June, and now it is forecast at no more than 560m tonnes.

Industrial production is officially down 0.7 per cent compared with the same period of 1989, but the trend is accelerating (August was 1.7 per cent lower than August 1989) and it makes no allowance for a hidden inflation of perhaps 10 per cent per year, as factories boost their incomes by switching to higher priced products.

All that lay behind the angry, even desperate intervention of President Mikhail Gorbachev on Friday, when he savaged the indecision of the assembled deputies, and suddenly came clean on the emergency presidential powers he is seeking.

As the parliament revealed its own powerlessness by failing to produce a quorum for what was undoubtedly the most important decision it has been asked to take since it was elected last year, the president's frustration was absolute.

"We are in a position of extreme danger and we must act," he declared. "We are suffering from a crisis of executive power. The processes have become so overwhelming that they could run out of control, and are already doing so in certain sectors."

What he called for were presidential powers for the duration of the crash transition to a market economy – presumably the 500 days proposed by the Shatalin programme – to include virtually every aspect of economic activity: property, wages, prices, the national budget, and public order, too.

The question is whether, even with such powers, he can execute the economic reforms the Shatalin plan demands. For the centrifugal forces in the country, the upsurge in demands for local control at every level and the collapse of the central command structure, appear to be all but out of control.

Indeed, within hours of his speech, the crucial alliance on which his reforms depend – with Mr Boris Yeltsin, the Russian president – was called into question. The Russian parliament issued a statement rejecting flatly any suggestion of such sweeping presidential authority.

So what is the Shatalin plan, which is in reality the Gorbachev-Yeltsin plan drafted by their closest economic advisers, trying to do?

Its two critical aims are first, to break the dead hand of centralised state control over every aspect of Soviet economic life, and second, to restore the value of money to the worthless rouble.

To do that, it proposes three key strategies. In the first place, it would impose a ferocious credit squeeze on government spending, calling a halt to virtually every ongoing construction project, and more drastic still, stopping the flow of credit to bankrupt state enterprises. It recognises that the greatest threat to the transition to a market will come from the excess money already sloshing around in the system.

Second, it calls for a privatisation programme, beginning with housing and small businesses, and agricultural land, and continuing with the transformation of state enterprises into joint stock companies.

The cancer in the Soviet body economic, not to mention politic, may already be inoperable

At the same time as these, it would give sweeping powers for each of the 15 republics to design its own programme to suit its own circumstances, introducing differing property laws and tax structures as it sees fit.

It calls for strict anti-monopoly legislation, including price controls, to prevent those state monopolies which cannot be broken up from exploiting their market position. And once those institutional reforms are under way, it would rapidly move to liberalise prices.

The plan has a logical coherence which is missing from the Abalkin programme drawn up by the government. The latter would first raise prices by central command, pay total compensation to all wage-earners, and only slowly introduce the reforms of the central bureaucracy.

More seriously, it would if anything aggravate the huge monetary overhang which threatens to turn the first hint of inflation into a raging forest fire. Mr Shatalin's colleagues calculate that the combination of continuing subsidies, new social programmes already approved, a failure to cut back enough on investment programmes, and the cost of total wage compensation, would push the budget deficit from the current Rbs80bn-Rbs90bn to a gigantic Rbs300bn-Rbs340bn next year – potentially more than the entire state revenues of Rbs320bn.

The government charges that the Shatalin plan would cause social chaos – unemployment up to 20m, and rampant inflation. The radicals retort that both those evils are happening by default because of the steady disintegration under government management, and insist that the market, and alternative employment, will dampen down the pressures.

As for inflation, they know it will come, and even welcome it as a less painful way of price reform than an administered solution. They only hope that the credit squeeze will remove the explosive pressure.

Yet the key difference is that the Shatalin plan recognises, and seeks to exploit, the inevitable: that power has already passed to the republics, and the centre cannot hold. The question now is whether that centrifugal process can still be channelled into coherent reform.

The plan's success also depends on a crucial issue which Dr Abalkin also recognised as his biggest problem from the start: the question of confidence in the government.

In a devastating article in the weekly, Literaturnaya Gazeta, last week, the magazine's economics editor Mr Vladimir Sokolov put his finger on it: "A peasant will not take the land even free of charge (and all the more so for money) until he knows for sure that no one will ever confiscate his plot, his crop, and the whole of his property any more.

"A city resident will not put his savings . . . into any business of his own until he sees for himself that neither the racketeers will set a shotgun under his nose, nor the laws will be suddenly altered 'by some fool.' A foreigner will not come to us with his technology until his investments are 100 per cent protected against any revolutionary expropriation."

In other words, any hope of successful reform requires stability of laws and economic ties, continuity of obligations by a succession of authorities, and protection from crime and social unrest – three things that Mr Gorbachev and all the republics (Mr Yeltsin included) have so far singularly failed to guarantee.

The Shatalin programme, drafted with the involvement of representatives from all the republics except Estonia, managed to get them all to agree that a common currency, a common financial system headed by a single (albeit federally-controlled) central bank, a common customs system and a single market, were essential prerequisites for reform.

Yet already the republican parliaments are calling that into question. Customs controls between Estonia and Leningrad suggest the battle has already been lost.

And then, who will implement the reforms? The bureaucrats only know how to run the old command system. There is a desperate shortage of qualified personnel in the republics. Even Russia, which has assembled an impressive, young and highly-qualified government, has no skilled civil service to back it.

"We have to overcome entrenched resistance in our rotten society," says Mr Nikolai Shmelev, one of the most outspoken independent economists. "Some 15m-18m people are engaged in the state supply (distribution) system. They are living on shortages. Quite objectively, these people are not interested in doing a good job, but in creating shortages. That increases the level of bribes."

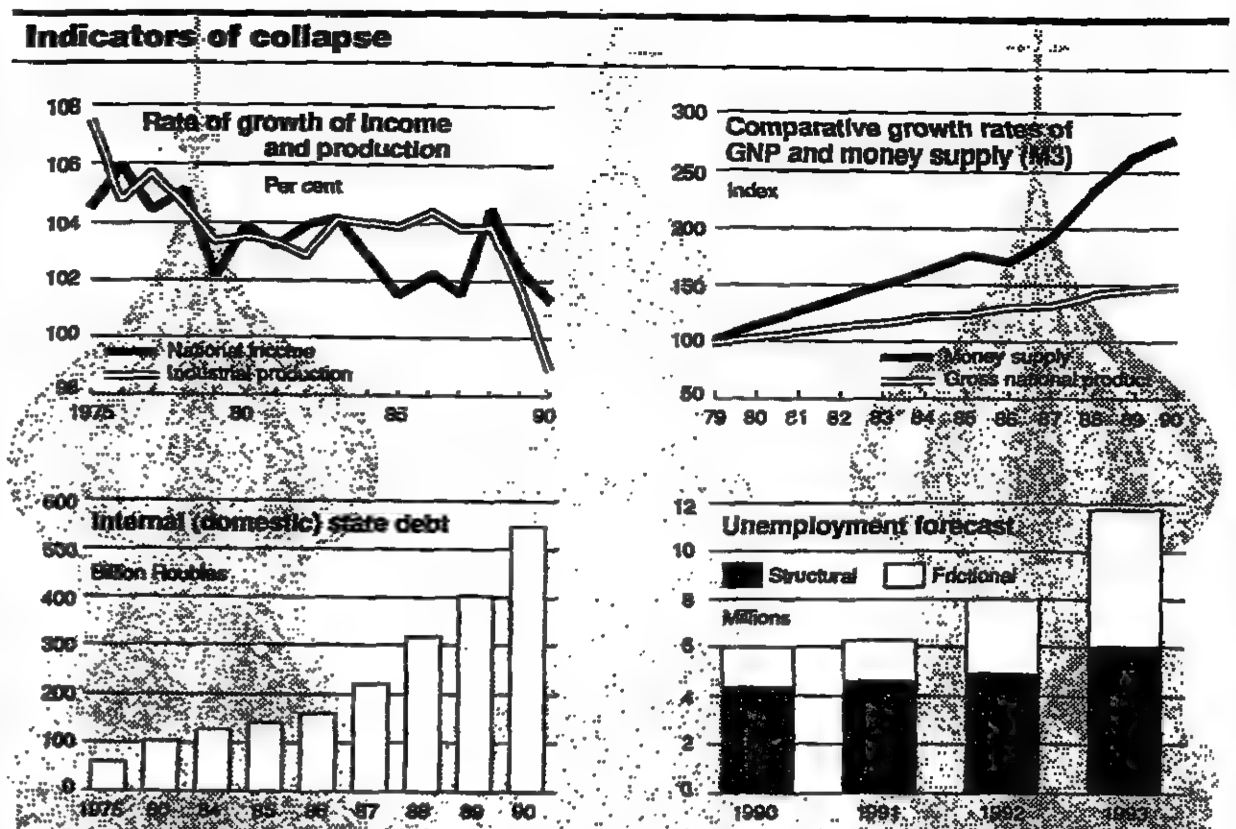
Yet others are convinced that it will be impossible to move to a free economy by dictatorship. Professor Yevgeny Yasin, a key member of the Shatalin group, believes this is the last real chance to achieve economic reform through democracy.

On the positive side, the plan seeks to exploit the upsurge in energy and enthusiasm in the republics, fuelled by the rediscovery of national pride. It draws on a whole new generation in Soviet life: six of the 13 in the Shatalin group are under 40, three under 30.

Finally, the expectations of the Soviet people are low. That goes hand in hand with their lack of confidence in any government. But it does mean that prolonged depression may not necessarily produce a bloody revolution.

Both Professor Shatalin, and indeed Mr Gorbachev himself, look increasingly like classic figures of Greek tragedy. The former, a sick man, may not have the physical strength to survive his great crusade to reform the economy. And the latter, the man who has transformed the entire climate of international relations at the end of the 20th century, may equally not survive that process.

Indicators of collapse



OBSERVER

Banks count their change

■ Those looking for evidence of the hard times being suffered by the world's bankers need look no further than the annual meetings of the International Monetary Fund and World Bank in Washington.

Usually at these gatherings the city's streets are clogged with the faintly ridiculous "stretch" limousines as bankers shuttle from party to party. But this year the city's car rental firms report a sharp drop in hirings, particularly of their top-of-the-line models, which they rent at up to $70 an hour.

Bankers are tightening their belts and counting their change. Citicorp is saving money and is not holding its annual bash. Britain's Midland Bank is also adopting a lower profile. Its annual party is off, and Sir Kit McMahon is not hosting his usual press breakfast. It is not much fun for the free-loaders. Banks say they are being more selective, "targetting" the people they want to meet in more intimate groups. Bookings for private houses for hospitality at up to $30,000 a week rentals are seriously down.

Evidence of economies too at the Commonwealth finance ministers meeting. The group decided it could not afford to hire its usual special plane to get to Washington from Trinidad. John Major, the Chancellor, and two of his aides managed to hitch a lift on the Canadian Air Force jet of Canada's Finance Minister, Michael Wilson. The rest of the Treasury entourage were forced to buy airline tickets.

Porritt's time

■ At this year's Green Party conference in Wolverhampton the lack of clear leadership is more noticable than ever. Of the party's 31 "speakers" appointed in August the best-known are adopting a low profile. Sara Parkin, whose conference speech last year was lubricated with tears over the future of the environment, is not making a set-piece address. Nor is the less softly-spoken Jean Lambert, the party's spokesperson in Europe. David Icke, the former BBC sports presenter, is not at the conference. He is at home working on a book.

That leaves the stage clear for others to take the limelight – although of course, the party will not accept a single leader.

One candidate lurking in the wings at Wolverhampton is the telegenic Jonathon Porritt, who stepped down from leading the Friends of the Earth group in June. Porritt, recognised as a powerful voice in green politics, is avoiding too much attention.

But, should he want it, the opportunity to use his standing to shake up the party is there for the taking. "I think support for him would be almost unanimous," says one Green party official.

Welling out

■ Curtis Welling, the high flyer and potential chief executive, who has just been fired from his job as head of equities at First Boston the US securities house, was unlucky enough to be an intellectual in a tough, plain-dealing firm.

Highly articulate, intelligent, and well regarded outside the firm, he seems to have got up some very important noses.

According to Radio Free First Boston (as the firm's gossip mill is affectionately called) Jack Hennessy, president and chief executive officer of CS First Boston, First Boston's parent, got tired of Welling taking up operating committee meetings with what he saw as quasi-philosophical speeches.

More of a problem for Welling was the fact that Rainer Gut, chairman of the group, didn't get on with him. Gut is said to have given the New York staff instructions never to seat the two of them at the same table.

A few months ago Hennessy talked about Welling as a potential future head of First Boston. Welling's departure has clearly come as a shock to his colleagues.

"I'm too much in debt to enjoy these halcyon days before recession".

Knight school

■ Dr Indraprasad Patel, outgoing director of the London School of Economics, is celebrating the announcement that the Queen has approved his appointment as an Honorary Knight Commander of the Order of the British Empire.

As an Indian citizen, Patel, who is known to staff and students at the school as "Iggy," cannot style himself Sir Indraprasad.

His predecessor, the distinguished German academic Sir Ralf Dahrendorf, got round that problem by taking British citizenship after his appointment to the order.

However, Patel tells me that he has no plans to copy him. He says, "My roots are in India, and I am retiring to India, so I couldn't really do that. Although I am very fond of this country." He adds wistfully, "Perhaps dual citizenship would solve my problem."

Patel retires from the LSE at the end of the month. His successor is Professor John Ashworth, formerly vice chancellor of Salford university.

City analysed

■ Richard Fry, financial journalist, is a true Victorian. He was born in the old Queen's reign in 1900.

He is also a true Bohemian. His father ran a brewery in that central European land of fable before the modern state of Czechoslovakia was invented.

Fry, who celebrated his 90th birthday in his London mews house yesterday with his wife Katherine aged 84, says he has finally retired. Yet he remains a canny observer of the financial, economic, and industrial worlds.

Of today's press coverage of business he says, "There is not a great deal of good analysis in the newspapers compared with the times when I was doing the job. In my opinion business writers now rely far too much upon the new breed of analysts working for City firms. They quote them instead of doing the research themselves."

He added a kindly rider, "I except the FT completely from that criticism, of course."

Fry became City Editor of the Manchester Guardian at the outbreak of war in 1939 and stayed in the job until he retired in 1965.

He joined weighing 10 stone and did not add a pound during his long years of service in spite of all those board-room lunches. He ate and drank carefully and reports, "In my time many of the City Editors died of over-eating."

An end to the years of plenty

After a decade of rapid growth, banks are scaling back their ambitions, writes David Lascelles

After a decade of strong growth banks are finally counting the cost of over-zealous lending and energetic international expansion. The depth of the problems were vividly illustrated last week by one of the world's best-known banks, Chase Manhattan, which announced it would be setting aside $850m to cover bad loans and shedding 5,000 jobs.

The banking industry does not take crises lightly. In other industries, the presence of one weak member tends to ease the competitive pressure on the rest, but a troubled bank can infect the whole system by undermining confidence. After a summer which has seen mounting banking losses, sharp falls in bank share prices and the credit downgrading of many top banks, Chase's predicament is symptomatic of much wider problems.

For once, it is not only the trouble-prone US banking industry which is in difficulty. Japan's banks, whose rapid growth in the 1980s has made them the biggest in the world, are also under pressure from the 40 per cent fall in the Tokyo stock market this year, and the precariousness of the Japanese real estate market. In Europe, some banks, such as those in Britain, are having to bear the pain of worsening bad debts.

All this might have been tolerable were it not for the increasingly gloomy world economic outlook. With the Gulf crisis unresolved and the world's main central banks increasingly unlikely to relax their tight monetary policies in the short term, the prospect of prolonged high interest rates and further difficulties for banks looms.

"I don't want to seem too pessimistic, but the situation looks rather bad," says Mr Tomonori Naruse, the resident managing director for Europe of the Bank of Tokyo. "Some fall in stock prices on the Tokyo stock market is reasonable. But once it starts, how far can it go? That's what worries me."

Many factors have combined to create this unsettling situation. Some are familiar and of the bankers' own making, such as over-lending to the notoriously boom-and-bust property industry.

Others reflect the intense competitive pressures of an overcrowded industry. Where other industrial sectors such as car manufacturing, chemicals or consumer goods have only a few dozen companies of world stature, the City of London alone houses more than 600 banks, two thirds of them foreign. Yet most of them are not even creditworthy enough to be able to perform the most basic banking function of raising money more cheaply than the corporations to which they wish to lend.

These competitive pressures have been, if anything, sharpened by the efforts of banking supervisors to bolster the industry in the wake of the Third World debt crisis. The new capital standards introduced last year by the Basle-based Bank for International Settlements have added to banks' operating costs by forcing them to raise billions of dollars of new equity. This, in turn, has encouraged them to take greater risks to earn higher profits, such as financing leveraged buy-outs.

And there is unlikely to be much let up on the part of regulators. Supervisors are taking a tough line, telling banks that they must cut back their assets, even dividends, if that is the only way to get their balance sheets in order.

In the US, bank regulators are themselves under pressure not only to prevent a possible banking crisis but also to ensure that the costs of any collapse are not met by the Federal budget; the authorities' bail-out of the savings & loan industry is already clocking up huge bills.

Mr Alan Greenspan, chairman of the Federal Reserve, told Congress in July that he is proposing to tighten US capital requirements next year. Bank analysts at Merrill Lynch, the US stockbroker, calculate that such a move could force Citicorp, the largest US bank, to raise $3.4bn in new capital. Banks will also have to bear a 50 per cent increase in their deposit insurance premiums.

This helps explain why Mr Thomas Labrecque, Chase Manhattan's chairman designate, prefaced last Friday's announcement with the words: "Today's operating environment is as difficult as any in the history of the global financial services industry."

But underlying these difficulties, there are also much deeper forces at work. Some banking industry analysts believe that the international banking market could be reaching the final throes of the unprecedented – but now unsustainable – expansion of the past two decades.

Banks have simply become too big, offering a too complex package of financial services. Although multinational banks operate worldwide offering a plethora of services, few of them can support such operations with enough management and financial strength. At the same time, the growth of capital markets and a broad expansion in the supply of other new financial products have made it possible for many corporations to finance their operations without recourse to banks. In Japan, this month, there has even been the bizarre spectacle of banks trying to borrow money from their corporate customers in order to bolster their own balance sheets.

Chase Manhattan's predicament is symptomatic of much wider problems

If the banking industry is really heading for a crisis, the tremors could well precipitate some big structural changes. This would be alarming but possibly healthy in the long run.

As Chase Manhattan's difficulties force it to retrench, it will be following a well-trodden path. Citicorp, Bank of America and Chemical have all retreated from overseas markets recently. All lost money on their overseas business last year.

"Globalisation" once a rallying cry, is now a dirty word. British banks, for example, have lost their appetite for aggressive international expansion, not least because their domestic profit margins are double their foreign ones. Only the Continental European banks are still expanding in foreign markets in a big way, taking advantage of the creation of the single EC market. But Deutsche Bank, one of the most active, has reached a pause. "I think we have enough to digest for the time being," says Mr Hilmar Kopper, the chief executive.

As for the Japanese banks, the most important question facing them is whether their mounting difficulties will curb their international growth. Japanese banks' aggressive tactics in the 1980s, which saw their overseas assets growing by 30 per cent a year, contributed to the earnings problems of other banks. Japanese bankers in London, where Japan's banks have their largest overseas operations, suggest asset growth will now fall into single figures, with greater emphasis on profitability.

Another reaction to the excesses of the 1980s may be a rationalisation of products and services. Banks may simply revert to doing a few things they know well, particularly straightforward domestic banking where most of them still enjoy dominant market positions.

Mr Brian Pitman, chief executive of Lloyds Bank, the UK clearing bank which has made a virtue of putting profits before size, says: "It's a myth that diversity makes you stronger. It actually makes you weaker because you end up with a small market position and small returns."

In a new study of banking trends, analysts at Goldman Sachs, the Wall Street investment firm, predict that big commercial banks would have to start "unbundling" themselves if they wished to remain competitive. The specialist suppliers of financial services, they say, "have thrived because they can be a more efficient means of financial intermediation than a bank. By specialising in narrow product delivery, there tends to be a better grasp of costs, and more appropriate product pricing."

Some of the biggest structural changes may simply result in an overall reduction in the capacity of the industry. The 1990s could bring an unprecedented wave of bank mergers. There is already speculation that some of New York's largest banks will have to join forces. In Japan the process began with this year's merger of Taiyo Kobe and Mitsui to form the country's second largest bank.

The Basle standards may also hasten the process by squeezing out the weaker players – though in many countries banks have been protected by their regulators for so long that the mechanism for permitting them to go out of business in an orderly way is rusty from under-use.

■ John Plender, page 40

Investment in the 1990s

Cost of altering circumstances

By Maurice Scott

"THE ECONOMIC priority for 1990 can be summed up in one word: investment," the Confederation of British Industry wrote in mid-January. The CBI is now worried that, as profits are squeezed and high interest rates are maintained in order to damp down inflation, investment will suffer.

But is investment that important? According to economic orthodoxy, it accounted for only a modest fraction of total growth in the golden era up to 1973. Much more important was technical progress, which is considered to be independent of investment. In the long run, according to orthodox theory, it makes little difference to the rate of growth whether 10, 20 or 50 per cent of national income is invested.

This theory suffers from a misconceived view of the contribution of investment to economic growth. The key mistake is the view of capital as an accumulation of capital goods. Instead, I prefer to define investment as the cost of changing economic arrangements, which covers any costs that would not be incurred in a society in which nothing ever changed.

The point is not that investment is more widely defined but that it is defined as the cost of change. Growth results from changing economic arrangements; there is nothing left for a separately identifiable "technical progress".

Theories explaining growth which are heavily dependent on "technical progress" vastly understate the contribution of material investment because of the way in which they measure the increase in the capital stock.

The error is the treatment of scrapping and depreciation. Orthodox theory wrongly says that what is relevant is the net increase in the capital stock – gross investment less depreciation. While gross investment does increase national output, depreciation (properly defined) does not reduce it. Since depreciation has accounted for about two thirds of gross investment over the past decade, subtracting it or not subtracting it makes an enormous difference to estimates of the contribution of capital.

Imagine there is no inflation. On average, wages rise as employers invest and compete for labour. For a business producing the average consumer good, this rise in wages will tend to squeeze profits. If the business were merely maintained in constant physical condition, its profits and so the value of its assets would dwindle to nothing. But its owners' losses would be exactly matched by its workers' gains. Appreciation of workers' human capital would then be equal and opposite to depreciation of business assets.

If depreciation is entirely due to relative price changes, there must be an equal and opposite amount of appreciation somewhere else. If we exclude the government and take net depreciation for the business sector as a whole, the only possible gainers are workers (in a closed economy). Consumers neither lose nor gain with the retail price index constant. Depreciation transfers income from businesses as a whole to workers as a whole.

The efficiency of the market affects the average efficiency of all investment

This explains why depreciation should not be deducted in measuring the contribution of investment to growth. But there is yet another reason why the benefits of investment have been underrated.

Another point of orthodox theory claims that without technical progress, diminishing returns would force the return on investment ever lower as capital accumulates faster than the growth of the labour force. The mistake here is to envisage capital accumulation as more of the same. But investment changes the world and so both creates and reveals new investment opportunities. The Channel Tunnel will, one hopes, do precisely that.

The creation of new investment opportunities means that the benefits of investment are, on average, much greater than the rewards to the investor. There is then no reason to suppose that the initially faster growth which results when investment is speeded up will fade away.

Growth can then be described in this way: a business that invests is changing its economic arrangements. How much improvement results depends as much on the quality of the investment (and so on its management) as on its quantity. The same is true for the whole economy, with the additional point that the efficiency of the market system will greatly influence the average efficiency of all investment.

Each business reacts to the opportunities created by others and, in turn, creates and reveals opportunities for them as well as for itself. By bidding against each other for workers, businesses drive up real wages and so transfer income from profits to wages. Any business which tries to opt out of this struggle for improvement will find that depreciation is causing the value of its assets to dwindle away. Like the Red Queen in Alice in Wonderland, it must run fast just to stay still. The growing wealth of the whole economy is shared out, and human wealth increases because of appreciation as well as through human investment.

Workers' gains are obtained at a cost. Someone must forgo consumption for investment to be possible. Workers may save, and lend to businesses, but another possibility is that wages may be restrained so that profits are larger. In the end, this sacrifice will redound to the workers' own benefit. Faster growth will result in more rapidly growing real wages, and so more appreciation of human capital.

In the British economy, there is a contradiction between the high level of profits needed for growth and the low level needed to stiffen employers' resistance to wage demands. Had the recovery in profits in the 1980s generated fewer wage demands and fewer concessions to them, there would now be less inflation, more profits, more investment, more employment and faster growth.

The author is a fellow of Nuffield College, Oxford.

LETTERS

Britain's shipping industry now truly international

From Mr Paul Slater.

Sir, Your editorial comment ("Shipping's call for a lifeboat," September 17) and the letters in response (September 20) serve to highlight the falseness of the arguments presented by Sir Jeffrey Sterling and his committee.

It is not the shipping industry in Britain that is in trouble but simply the number of ships flying the red ensign that is in abject decline.

The references to the size of the UK registered fleet are totally irrelevant when examining the enormous volume of earnings generated by the British shipping industry which by definition encompasses all *shipping* and *shipping-related* activities conducted in the UK, or those covered elsewhere in the world by British companies.

The maritime insurance, finance, legal and ship management activities in the UK are vibrant, expanding and totally *international in their focus.*

Fortunately the British shipping industry has become truly international and is no longer dominated by old-fashioned, poorly managed shipping companies whose ancestral roots were more important than their industrial competitiveness.

There are broader arguments for the introduction of capital investment incentives across British industry enabling individuals to invest as well as to facilitate the transfer of investment from one industry to another. *To single out British*-flag shipping as a special case by repeating well worn strategic arguments will not wash.

What needs to be encouraged is the continued investment of money and labour in British-based shipping without the requirement to link this to the registration of ships under the UK flag. Any capital investment allowances that may be introduced should apply to all ships owned by British companies irrespective of their operational flag.

Paul Slater,
Chairman,
First International Capital,
4 Park Place,
St James's, SW1

Towards a strategy for tackling unemployment in the 1990s

From Mr Peter Ashby.

Sir, Your editorial comment ("Déjà vu for jobs," September 18) offers a *formidable analysis* of the growth of unemployment in the 1980s. Yet it fails to explain why government initiatives to tackle long-term *unemployment* have never quite lived up to expectations.

The conventional wisdom is that the main culprit has been the Treasury, *for failing to* deliver sufficient resources. But the more liberally minded members of the establishment also carry some responsibility *for failing to come to terms* with the ways in which long-term unemployment can transform individuals' attitudes.

If a substantial rise in long-term unemployment is to be avoided, we must first acknowledge the emergence of a new underclass among the long-term unemployed, especially young, single males who are contemptuous of a system which they regard as out to push them into dead-end jobs. Training and Enterprise Councils must begin to create new "escalators of support" *for* low-paid workers to challenge the view that low-paid jobs constitute a ghetto from which there can be no escape.

Second, we must once and for all get over the political hang-up about schemes being voluntary. Experience *in Full Employment UK* (after discussing this with countless unemployed groups throughout the country) is that they generally have little difficulty with the *idea that they* should be required to choose something, so long as they have some real choice between training, education and temporary work.

Third, we should draw a leaf *out of the* example of training credits for young people, and extend the principle of entitlement to very long-term unemployed people. There should be no further delay in piloting voucher and credit schemes for them. But they should not be restricted to Employment Training, nor just offered on the basis that unemployed people can take it or leave it.

Choice, entitlement, and obligation – together these principles offer the underpinning for a concerted strategy to tackle long-term unemployment in the 1990s.

Peter Ashby,
Full Employment UK,
79 Prince George Road, N16

From Mr Denis MacShane.

Sir, What a contrast between the common sense in your editorial comment *on the need for* a complete rethink on British labour market policies and the frankly buffoonish comments of Mr Eric Forth, the British minister responsible for undermining European Community policy on labour affairs, as profiled a few pages earlier ("American dream for Brussels").

I yield to few in my admiration of the vitality of *the US* but *not even the most rosy-eyed* can avoid seeing the negative consequences of the US labour market. These include a *huge loss of skilled* workers, a reduction in well-paid jobs with a consequent turn to credit to maintain living standards and a regional and racial weighting of unemployment with horrid social consequences. The worst of the Third World co-exists uneasily with the best of the *First World* in America and, although there is a ladder between the two, not many get to climb it.

Britain went far down the American road in the 1980s *abolishing many labour* market controls and unemployment went down temporarily. Easy credit on offer for electoral reasons, much *like* President Reagan's Keynesian priming of the economy through arms expenditure, helped create British jobs. *Now to curb inflation the taps* are turned off and unemployment is shooting upwards with worse to come.

Thus the American labour market model has not worked in Britain and almost certainly cannot work in Europe except at the price of accepting its disadvantages. A modern British (and European) labour market policy is one of the great unsolved – and not much discussed – *items on the current* political agenda. Would that British ministers addressed it with serious thought instead of *silly slogans.*

Denis MacShane,
International Metalworkers Federation,
54 bis route des Acacias, Geneva

From Mr Roy Grantham.

Sir, Commenting on the output recovery in 1982, your editorial says that "the rapid productivity gains of the 1980s were translated into higher real wages for employed 'insiders' and higher profits for the shareholders" rather than increased employment.

In 1982 employers were recovering from a position where 20 per cent of employment in manufacturing industry had been destroyed "at a stroke" by the government pricing British goods out of foreign and domestic markets through an absurd over-valuation of the currency.

In the face of this, employers did two things. First they went for a policy of exploiting their existing financial and labour resources with the firm intention of not expanding either the labour or capital commitment *so as not to* be caught in the same trap again. Second, in developing this idea, they went in a very modified form for core employment, decanting many peripheral jobs into self-employed posts and putting other permanent work out to contract.

Negotiation of wages and payments *of dividends* from increased profits have nothing to do with this strategy. These policies derive from the strategy of *limited liability and* limited exposure, arising from the terrible impact on British industry of totally inappropriate government financial policies.

The fact that we are now to go through a modified version of 1981 all over again is going to reinforce those attitudes among British employers.

The first player with the responsibility of ensuring that Britain has an effective manufacturing industry and is able to balance its *imports* with exports is the government of the day. It is clear that successive governments since 1979 have *shown themselves* quite incapable of fulfilling this obligation. Until we get a government that is properly committed to that clear objective and which subordinates other policies to that clear objective, industry will wisely continue to protect itself.

Roy Grantham
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FINANCIAL TIMES
Monday September 24 1990

UK, Vietnam and Hong Kong agree on non-voluntary repatriation

Accord permits return of refugees

By Angus Foster in Hong Kong

BRITAIN, Vietnam and Hong Kong have reached an agreement which would allow the repatriation of Vietnamese refugees camped in the colony who have not volunteered to return home.

The agreement, which has the backing of the United Nations High Commissioner for Refugees, broadens an understanding reached earlier this year on repatriating Vietnamese boat people held in Hong Kong.

The countries have agreed to repatriate boat people who do not volunteer to return but who are not opposed to going back. The earlier scheme allowed only for the repatriation of volunteers.

The deal is a breakthrough for Britain and Hong Kong which have been trying to persuade Vietnam to take back more of the boat people.

Vietnam had refused to accept non-volunteers because it feared international criticism, principally from the US, after Hong Kong forced 51 boat people back to Vietnam against their will in December.

The agreement widens the net of potential returnees and could lead to a regular repatriation scheme. It should boost the total number of returnees leaving Hong Kong at a time when the existing voluntary repatriation scheme has been losing momentum as fewer volunteers have come forward.

Sir David Wilson, Governor of Hong Kong, yesterday described the agreement as an "important step" in the process of returning all Vietnamese "screened out" as non-refugees.

He said details had yet to be finalised but he hoped the first mandatory repatriation, the Government's description of the process, would start this year.

Since June 1988, Hong Kong has assessed the status and motives of all arriving boat people. Boat people considered to be genuine refugees are given refugee status and stay in Hong Kong pending re-settlement to third countries. Other Vietnamese are screened out as illegal immigrants.

There are just over 9,000 genuine refugees in Hong Kong camps, compared with 44,654 boat people, of whom 12,806 have been screened out as illegal immigrants and nearly 32,000 are yet to be screened.

The figures have hardly changed since the beginning of the year, even though the numbers of boat people arriving have dropped sharply, partly because of a high birth rate in the boat people camps.

Only 5,000 boat people have arrived so far this year, compared with more than 34,000 last year.

The voluntary repatriation scheme has not matched the target of 1,000 volunteers a month, and only 3,487 Vietnamese have flown home since agreement was reached in February. A worsening outlook for the Vietnamese economy is thought to have prevented potential volunteers from coming forward.

The UN High Commission for Refugees has refused to take part in forced repatriation. Both the Commission and the Vietnamese Government are thought to have agreed to the new proposals so long as physical force is not used.

The problem for Hong Kong will be to convince outsiders that returnees who have not volunteered do not mind being sent back.

Soviet-Russian split threatens reform plan

By Quentin Peel in Moscow

URGENT talks between the Kremlin and the Russian parliament continued over the weekend in an attempt to prevent a split over the need for emergency presidential powers undermining the plan for a 500-day transition to a market economy.

The irony is that President Mikhail Gorbachev is seeking the emergency powers to implement the programme that Mr Boris Yeltsin and the Russian parliament have already approved.

The contention has arisen because the powers sought by the Soviet leader would be imposed union-wide and would give him the power to impose presidential rule (virtually martial law) and suspend republican parliaments, if necessary.

The presidium of the Russian parliament issued a statement on Saturday signed by Mr Yeltsin, rejecting Mr Gorbachev's call for extra powers as "impermissible".


Gorbachev: extra powers

"If the USSR Supreme Soviet grants such powers to the President, the Russian Supreme Soviet, the presidium of the Russian Supreme Soviet, and the president of the Russian parliament (Mr Yeltsin) will take all necessary measures to protect the sovereignty and the constitutional system of the Russian federation," the statement said.

The Supreme Soviet is supposed to vote on the powers today, after Mr Gorbachev denounced the deputies on Friday for indecision and failing to achieve a quorum. They are also supposed to decide whether to pursue the Shatalin plan, or choose the Ryzhkov government's more cautious approach.

Until now, it has been clear that the political pact reached between President Gorbachev and Mr Yeltsin in August was holding, despite personal mistrust, and that both men were committed to rapid implementation of the market reform plan drafted by their advisers – the so-called Shatalin plan.

The Russian statement still holds out a compromise, suggesting that the Soviet President could get together with the "supreme authorities of the union republics (to) work out co-ordinated measures for stabilising the economic and political situation". Such an agreement should be "based on mutual recognition of the sovereignty and constitutional system existing in each of the republics".

Mr Gorbachev's problem is that any such strategy would mean further delays in implementing the reform programme and it is to avoid such delays that his advisers have been urging him to assume sweeping powers so that he can act by decree.

Spain begins Mediterranean security drive

By Peter Bruce in Madrid

THE SPANISH Government, with strong Italian support, will today begin a concerted campaign aimed at forming a permanent agency on security and co-operation in the Mediterranean.

The agency, which will be modelled on the Conference on Security and Co-operation in Europe (CSCE), is designed to pre-empt an economic and political crisis on Europe's southern flank.

Mr Francisco Fernandez Ordonez, the Spanish Foreign Minister, and his Italian counterpart, Mr Gianni de Michelis, are expected to press the case for the creation of a Conference on Security and Co-operation in the Mediterranean (CSCM) during a one-day inter-sessional meeting of the CSCE in Palma, Majorca.

The idea, born out of southern European fears that rapid population growth and shrinking economic resources in North Africa may soon bring the northern and southern shores of the Mediterranean into conflict, would involve the writing of a Mediterranean Act similar to the Helsinki Final Act which established the CSCE in 1975.

Like the CSCE, which consists of a number of "baskets" of contact between East and West based on security, economic co-operation and human rights, the Spanish want a CSCM to involve a trade-off between European economic assistance and political stability on the southern shore of the Mediterranean.

The proposals are still vague but all the Mediterranean countries, including Israel and Libya, are expected to send delegates to the Majorca meeting. Spanish officials say that while Washington has been briefed on the plans, the US has been non-committal.

Spurred by the new Gulf conflict, Mr Ordonez has written to European Community governments urging them to support the idea. "Our concern must be to avoid a possible collision course between Islam and the West," he said in the letter. "We must be capable of reacting in a reasonable and co-ordinated way, to influence the course of events before it overwhelms us."

The letter, which also suggested the CSCM could address conflict in the Middle East, added that the population of southern Mediterranean countries would double by the year 2025 and "the crisis of western-like development models is encouraging the rise of reactionary traditionalism. . . Fundamentalism in the South has its Northern counterpart in the reappearance of racism and xenophobia."

Insurers link increase in arson to recession

By Richard Lapper in London

BRITISH insurers are facing a considerable increase in claims from arsonists and other fraudsters as the effect of the economic downturn begins to be felt.

Companies specialising in insurance litigation say owners of some businesses, hit by a combination of cash flow problems and high interest rates, are turning to crime to save their livelihoods.

Figures by the Association of British Insurers (ABI) show that fire losses increased by 30.2 per cent to £230m ($432.4m) during the three months to the end of March, compared with the first quarter of last year. The association says arson accounted for a major proportion of the increase.

Fire losses last year rose by £146.5m to £782.4m, an increase of almost a quarter. Mr Trevor Chamberlain, partner with insurance litigation specialists Wansbroughs Willey Hargreave says:

"In times of recession, people do things that they otherwise wouldn't do. The insurance industry is facing a substantial increase in fraudulent claims."

Mr David McIntosh, an insurance law specialist, said that previously honest individuals threatened with losing everything were capable of desperate measures. "Pillars of the business community will act out of character."

Reports last week by two police chiefs detailing increases in criminal damage in the first half of 1990 showed arson incidents increasing by more than 20 per cent in the Nottinghamshire area of central England. According to the Loss Prevention Council, a body set up by the UK insurers, losses from arson are "obviously going to get worse" as a result of the recession.

Warehouses, which are generally attended by fewer staff, are particularly vulnerable, says the council.

Mr McIntosh said that loss adjusters, employed by insurers to inspect the scenes of losses, were well aware of the problem.

It was difficult to see what else had caused the rise in claims, he said. "The greenhouse effect hasn't suddenly made buildings burst into flames. Buildings are not suddenly becoming more combustible."

The problem is aggravated because arson is frequently difficult to detect and tricky to prove.

Police forces are frequently ill-equipped to follow up arson claims and find it difficult to secure a conviction. Insurers, on the other hand, are criticised for failing to contest claims which they really believe to be fraudulent.

"If insurers find that there is anything funny about a claim they'll use it as a bargaining counter and negotiate a reduced payout," said Mr McIntosh. He added that insurers should fight fraud cases harder.

"Some insurance companies certainly need to show greater resolve in raising and running the fraud defence when the underlying facts and the professional advice they obtain warrant it."

Saddam warns of attack by Iraq

Continued from Page 1

not affect humanitarian supplies of medicines, or refugee flights.

Yesterday, India said it was confident it could begin a major evacuation of some 100,000 nationals from Iraq and about 10,000 stranded in Kuwait, using three ships. Ten aircraft will also be making daily flights.

At Baghdad airport yesterday there were reports of pandemonium as foreign workers tried to board the two heavily over-booked daily flights to Amman, the Jordanian capital.

Major does not plan lower UK rates

Continued from Page 1

ing inflation rates.

There was no doubt the economy was slowing rapidly. It was in what some economists have termed a "growth recession," usually taken to mean a period in which growth in the economy is significantly below that of its potential.

He said it was uncertain whether Britain would enter a true recession in the sense of falling output for two consecutive quarters. The cooling-off was essential and unavoidable, however.

Mr Major made clear that he would err on the side of caution before deciding to ease the brakes. He recalled that after the global stock exchange crash of October 1987, the Government had lowered interest rates and in the process had been criticised for not moving quickly enough.

What critics and the Government had not realised was that demand was growing excessively and building up the inflation problem that persists.

He said people often over-reacted at an early stage to economic developments. It would not be in the interests of sound running of the economy if he reacted before he was certain what to do.

Mr Major warned that jobs would be lost and investment would fall unless employers and employees agreed lower wage settlements than the current 10 per cent increase in average earnings.

During the Interim Committee meeting, Mr Major outlined his four-part initiative to ease the official debt burden on the poorest, most heavily indebted developing nations.

The initiative had won support from several ministers and he was "optimistic that we will be able to take it forward," he said.

Polly Peck calls for an official inspection of its affairs

By Clay Harris, Richard Waters and Richard Lapper in London

THE BOARD of Polly Peck International, the UK fruit trading and consumer electronics group, last night formally asked the government's Department of Trade and Industry to appoint inspectors to investigate and report into its affairs.

The request signalled the intention of Mr Asil Nadir, chairman and chief executive, to defend himself against the recent wave of criticism that he and the group have faced.

It also suggested that Mr Nadir continues to have the backing of his fellow directors on Polly Peck's board.

In a letter to Mr John Redwood, minister for corporate affairs, Mr Nadir said: "So intense and severe is the attack on the company and on myself that we, on our own, are unlikely to be able to find a fair hearing."

He said Chartered WestLB, Polly Peck's merchant bank, had written to Mr Redwood last week, asking for help in dealing with media speculation. "In the meantime, the situation has deteriorated most seriously with damaging media reports of alleged actions of various governmental bodies."

Polly Peck also asked Mr Redwood to review the practices of the regulatory authorities "in the light of recent events surrounding the company and its chairman."

Separate proceedings would be issued and served today against Times Newspapers and The Observer, Mr Nadir said, and further proceedings were being prepared.

The Sunday Times and the Observer yesterday carried lengthy reports that alleged irregularities relating to dealings in Polly Peck shares.

Polly Peck's shares were suspended on Thursday, after losing more than half their value in a few hours.

Mr Nadir was questioned by the Serious Fraud Office on Thursday, one day after the SFO had searched the Mayfair offices of South Audley Management, a company linked to Nadir family trusts.

Last month, Mr Nadir was criticised by the London Stock Exchange's quotations panel for the manner in which he proposed a buy-out of Polly Peck and retracted it five days later.

The board plans to make a detailed statement on the company's affairs early this week.

One adviser said before yesterday's meeting that Mr Nadir had offered to stand aside as chairman if the board believed it would be good for Polly Peck. There had been no attempt to force Mr Nadir to resign, he said.

Mr Peter Barton, a director of Lehman Brothers, one of Polly Peck's two brokers, said yesterday: "Clearly the board is very aware of the seriousness of what is being said and the need to answer all the allegations that are being made."

Without a full statement, the Stock Exchange is unlikely to agree to a resumption of dealings in Polly Peck shares.

South Audley and at least one of its former directors, Mr Jason Davies, have been investigated by the Stock Exchange's insider dealing group in relation to trading in Polly Peck shares.

The Swiss Justice Ministry said it had had no approach from any UK agency for help with their investigations into Swiss nominee companies at the centre of the inquiry.

Mr Davies lives in Founex, Switzerland, where his wife said yesterday: "He's gone out for the day with some friends."

There was no response last night from the home of Ms Elizabeth Forsyth, a director of South Audley and other Nadir-associated companies, in Grantham, Lincolnshire. A neighbour described her as a "very very nice lady and a very very powerful lady."

The house is directly across the street from the former grocer's shop where Prime Minister Margaret Thatcher spent her childhood. The proprietor of The Premier restaurant, which now occupies the shop premises, said Ms Forsyth "would not thank us for disturbing her on a Sunday."

Editorial comment, Page 24

THE LEX COLUMN

A confidence test for the bears

When the shares of four out of the top five New York money centre banks are yielding more than they charge their prime borrowers, it is clear that there is a shortage of confidence in at least one important part of the global financial system. The ratings of other major financial institutions around the world, with one or two painful exceptions, have not sunk so low. Nevertheless, one of the most worrying aspects of the current nervousness is the evidence of a growing loss of confidence in some of the institutions which prop up the world's financial markets.

This is nothing new. Over the last couple of decades there have been periodic financial crises ranging from the UK secondary banking crisis and Herrstatt in 1973/74, Mexico's near financial collapse in 1982, and the run on Continental Illinois in 1984. From time to time, other famous names ranging from BankAmerica to Chrysler and Lockheed, have sent shivers through the financial markets, but did no lasting damage. In this respect the problems of Chase Manhattan, the second biggest US bank, are no different.

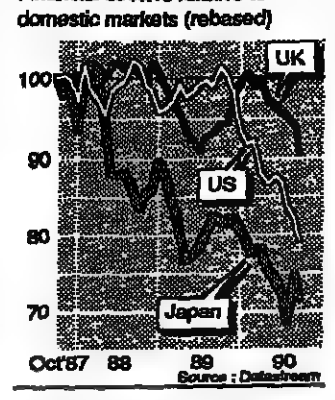
Liquidity

Its capital ratios still look respectable. But banks very rarely fail because of a lack of capital – more a lack of confidence. This is why liquidity is what matters most, as Drexel Burnham found to its cost. And while central banks are not going to let a big commercial bank go bust, there is less confidence about official support for parent bank holding companies. This can have a knock-on effect on their ability to raise liquidity by issuing commercial paper, for example.

An even more serious worry is that banks are most vulnerable to the sharp slowdown in the growth of global liquidity which fuelled the great bull market of the 1980's. This is responsible for the recent falls in equity and property prices and the longer it continues the worse it is for the banks. Their bad debts increase, capital ratios are damaged, and their eagerness to lend evaporates. This is normal in a bear market. But there is always an outside danger that the authorities will not be able to prevent it developing into a self-feeding financial collapse. What has up till now been a relatively modest bear market, would then turn into a much more serious affair.

Dodgy bank balance sheets always make headlines. Those of insurance companies do not. Even investors who were still at school in 1973-4 remember how close National Westminster came to the brink; far fewer recall that between 1974 and 1976, all five of the UK's quoted composite insurers had to raise new equity to repair the damage done to their shareholders' funds by weak capital markets and lousy operating results. But last Thursday's echoes of 1974 in the equity market raise the question of whether history is repeating itself.

Financial sectors relative to their domestic markets (rebased)



Insurers

The likely answer is not yet, and certainly not in every case; but the fundamentals are poor. A composite insurance company is just management, a back office, a bundle of shares, bonds and real estate and billions of pounds of potential liabilities. So a 1990s environment of huge windstorm losses, price competition in the US and UK, inflation and falling financial markets is as nasty as can be. The insurers' liabilities, more often linked to wage inflation than to retail prices, are rising fast. But their asset base is simultaneously being eroded.

To be sure, the balance sheets are not quite as anaemic as in the early 1970s. As of June 30, the solvency margins of the UK composites, measuring shareholders' funds as a percentage of premiums, were all comfortably above the legal minimum of 17 per cent: Sun Alliance at over 90 per cent, and even the weakest, Royal, at 44 per cent. The UK equity market has dropped 16 per cent since then, and short-dated gilts are down 3 per cent; but it takes a lot more than just a two or three month bear market to force a huge insurance company into a rights issue. And all the composites have peripheral assets, such as minority stakes in Continental insurers, which they could sell if need be.

So much for the British insurers in isolation. But the big difference between now and 1974 is that viewing them like that makes little sense. Insurance is still a long way from being a global business like tobacco or soft drinks; but it is moving that way gradually, as last year's AMP/Pearl and Victoire/Colonia takeovers showed. The really glaring thing now is the wide disparities between countries like Germany, Switzerland and France, where the insurers either have very strong finances or are state-owned, and those like the US and the UK, where some insurance company balance sheets are coming under heavy pressure.

In the US, where on average the balance sheets and asset quality of insurers is worst, Wall Street investors have already taken the point. Shares in Travelers Corporation, which ventured deeply into Texas real estate, are yielding 10.3 per cent, a 17 year high. Another big insurance stock, Continental Corporation, yields 12.3 per cent, and USF&G yields 14.5 per cent. What the 1990 bear markets in bonds and equities are doing is to accentuate even more the inequalities between the weak insurance companies and the strong. So the nemesis of both British and US insurers in the end may be the same as the banks – the enforced rationalisation of their industry by foreign predators with big money behind them.

Interest rates

Against this sort of background it is no surprise that it is the financial sector which has led equity markets down around the globe. The Standard & Poor's financial index is 38 per cent down from its peak, which is more than twice as big a fall as the overall US equity market. The Tokyo banks and insurance index, and the FT-A financials, have also substantially underperformed. All three peaked in 1987 – the low point for official interest rates in the current cycle – and any recovery in equity markets generally, and the financial sector in particular, hinges on lower interest rates.

The recent doubling in the oil price has increased the risk of inflation and recession, and the great danger for equity markets is that the world's central bankers will do nothing. The only consolation is that in the past, whenever such events have raised the risk of systemic financial problems developing, the authorities have injected liquidity into the system. There is no reason to believe they will not do the same again.

WORLDWIDE WEATHER

		°C	°F
Ajaccio	S	[illegible]	79
Algiers	S	32	90
Amsterdam	F	15	59
Athens	S	27	82
Bahrain	S	32	91
Bangkok	F	33	93
Barcelona	F	26	79
Beirut	–	–	–
Belfast	F	12	55
Belgrade	S	27	82
Berlin	F	15	59
Biarritz	C	18	65
Bombay	F	30	86
Bordeaux	F	21	70
Boulogne	–	–	–
Brussels	F	15	59
Budapest	C	17	63
Buenos Aires	C	16	61
Cairo	S	30	86
Cape Town	–	–	–
Caracas	C	30	86
Casablanca	F	23	73
Chicago	S	6	43
Cologne	F	17	63
Copenhagen	F	15	59
Corfu	F	25	77
Dallas	S	17	63
Dublin	F	12	54
Dubrovnik	F	25	77
Edinburgh	C	11	52
Faro	F	22	72
Florence	C	26	79
Frankfurt	F	17	63
Geneva	C	17	64
Gibraltar	C	25	77
Glasgow	F	14	57
Helsinki	F	7	45
Hong Kong	–	–	–
Innsbruck	R	16	61
Inverness	C	12	54
Islamabad	F	32	91
Istanbul	S	25	77
Jakarta	F	30	86
Jersey	C	15	59
Johannesburg	S	22	72
Lima	C	16	61
Lisbon	F	22	72
London	F	13	[illegible]
Los Angeles	–	–	–
Luxembourg	C	14	57
Madeira	–	–	–
Madrid	S	22	72
Majorca	S	32	90
Malaga	F	27	82
Malta	S	29	84
Manchester	H	11	52
Manila	C	29	84
Melbourne	S	17	63
Mexico City	C	25	77
Miami	S	26	79
Milan	C	21	70
Montreal	C	11	52
Moscow	C	11	52
Munich	C	16	61
Nairobi	F	23	73
Naples	[illegible]	25	77
Nassau	F	32	90
New Delhi	–	–	–
New York	–	–	–
Nice	S	26	79
Nicosia	–	–	–
Oporto	C	20	68
Oslo	C	8	46
Paris	F	17	64
Peking	F	22	73
Prague	[illegible]	17	63
Reykjavik	[illegible]	10	50
Rhodes	S	26	79
Rio de Janeiro	F	37	99
Rome	C	23	75
Salzburg	C	15	59
San Francisco	–	–	–
Seoul	C	23	75
Singapore	F	30	86
Stockholm	R	6	43
Strasbourg	F	17	64
Sydney	F	20	68
Taipei	F	32	90
Tangier	C	22	73
Tel Aviv	–	–	–
Tenerife	Dr	21	70
Tokyo	S	27	81
Toronto	F	8	46
Tunis	S	33	93
Valencia	F	29	84
Venice	S	22	73
Vienna	C	17	64
Warsaw	F	15	59
Washington	S	15	59
Zurich	R	15	59

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
Monday September 24 1990

INSIDE

Laying up in the convertible haven

Investors were unhappy last week when UK convertible bonds, traditionally regarded as a haven against stock-market downturns, provided only limited protection against the slide in equities. None the less, as Tracy Corrigan reports, some investors regard the bonds as a good way to benefit from any closing of the yield gap between equities and gilts. Page 30

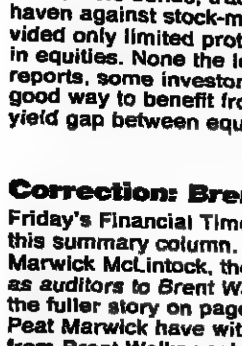
Correction: Brent Walker

Friday's Financial Times contained an error in this summary column. The report that Peat Marwick McLintock, the accountants, had quit *as auditors to Brent Walker* was incorrect, as the fuller story on page 24 made clear. In fact, Peat Marwick have withdrawn their services from Brent Walker only in respect of a disputed *transaction* with Grand Metropolitan, and remain its joint auditors. The FT regrets the error, which was based on an incorrect news agency report.

A shake-up in waste

Bids last week in the fast-growing UK waste management industry would – if successful – *swallow up two of the six quoted companies in* the sector. The reason is the rising value of *holes in the ground.* Page 26

Flat first half at Indosuez



The weakness of the dollar, poor stock market conditions and more difficult credit conditions have resulted in Banque Indosuez, the merchant banking subsidiary of France's Suez group, reporting flat first half profits. Despite the deterioration of conditions since the Gulf crisis, however, Mr Antoine Jeancourt-Galignani, chairman, (above) says he hopes to maintain full year results in the region of 1989's FFr1.08bn. Page 27

The root of bank stock jitters

Recent share price setbacks for Chase Manhattan, for Midland Bank, and for the industrial Bank of Japan raise the question: why are the *stock markets* now so nervous about the banks? John Plender explores the subject. Back Page

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Fed decision on J.P.Morgan attacked

By Peter Riddell, US Editor in Washington

THE US Federal Reserve's *far-reaching decision to allow J.P.* Morgan, the New York commer*cial bank, to underwrite corpo*rate equities has been attacked *by Congressional leaders* as an attempt to circumvent and preempt the legislature's review of possible banking reforms.

The Fed's *decision* is *one of* the most fundamental since the Glass-Steagall Act of 1933 split investment and commercial banking in the US.

It comes at a time of increasing alarm in Washington about the financial problems of many banks and about the severe strain on the Federal fund which insures bank deposits. Moreover, both the Bush administration and Congress have been considering fundamental reforms of the banking structure to be included in legislation next year.

Responding to the concerns of the influential securities industry *lobby, Congress has for a long* time resisted repeal of Glass-Steagall *even though it has been* eroded in practice.

Congressman Henry Gonzalez, the Democratic chairman of the *House* Banking Committee, which will play a large part in any banking legislation next year, argues that it is "irresponsible for the Fed willy-nilly to add massive new risks to the banking *system at a time when the tax*payer supported insurance fund is strained to its limits."

The congressman, who once unsuccessfully sought to impeach Mr Paul Volcker, the former Fed chairman, accused the central bank of attempting to make new law.

Other powerful committee chairmen, *including Congress*man John Dingell of Energy and *Commerce, have also opposed* allowing banks into the securities' area.

Moreover, last week the General Accounting Office, the Congressional watchdog agency, last week urged that powers should not be expanded for any banking *institution until the insurance* fund is put on a solid footing and regulators could credibly demonstrate the ability to oversee and adequately *enforce* safety and soundness standards.

In the the light of the hugely expensive and unpopular savings and loan rescue, Congress is determined to avoid any repetition in the banking industry which might result in a similar call on taxpayers. Consequently, legislation giving the Federal *Deposit Insurance Fund freedom* to levy whatever premiums on banks it sees as necessary *to* maintain the solvency of its fund was last week rushed through the House of Representatives and will this week be considered by the Senate.

A *wide-ranging* debate is under way within the administration, Congress and the banking industry about possible reforms. The Treasury and the Federal Reserve are considering retaining the present deposit system in a modified form – possibly limiting the $100,000 guarantee to each individual rather than on each deposit – and stressing the need to increase capital requirements to match risks and an extension of bank powers.

The Glass-Steagall Act, a response to the post-1929 financial crash and the depression, has partially lost its force in recent *years. In particular,* in *January* 1989 the Fed gave commercial *banks the power to* underwrite corporate debt and hinted at an *extension to equities.*

The immediate impact of last week's *decision* will be limited since J.P. Morgan is one of the *strongest* US banks and *the* change is limited since the bank will be allowed to derive no more than 10 per cent of its revenues from underwriting corporate equities, debt and related securities. Moreover, the securities business will be separate from the rest of the bank with its Federally insured deposits.

Mounting problems for the banks, Page 23. John Plender column, Back Page.

Stake in Murray Johnstone for sale

By Andrew Bolger in London

MURRAY JOHNSTONE, one of the UK's largest independent *fund managers, is seeking a* buyer for a 9.4 per cent holding *in the group* – and would be ready to offer a bigger stake to *the right purchaser.*

The unlisted group, based in *Glasgow, is trying to place the* 9.4 per cent stake currently held *by Kemper Financial Services of* Chicago, one of America's biggest and fastest growing mutual fund managers.

Kemper bought its stake in the Scottish group's parent company in 1987. Murray Johnstone and Kemper ran a joint venture oper*ation from* 1980, *managing* the international investment funds *of* US pension funds. But this was wound up 18 months ago.

Mr Nicholas McAndrew, managing director of the Murray *Johnstone parent company*, denied a report that the whole *group was up for sale.* However, he said the right sort of pur*chaser could be offered* more than the Kemper stake.

Murray Johnstone, which has funds of some £4bn under man*agement, could prove attractive* to a European bank or overseas *buyer* keen to *establish a foot*hold in Europe.

In the last two years several leading UK fund management businesses *have been bought* by European financial service groups. Dresdner Bank paid £25.2m ($45.4m) for Thornton Investment Management in June, 1988, and Bank in Lichtenstein bought *GT Management* for £91.5m at the beginning of 1989. Last year also saw Société Générale secure Touche Remnant for £50m and in March Banque Indosuez paid £154.8m for Gartmore Investment Management.

Mr McAndrew said that while Murray Johnstone might be attracted by an overseas bank with a large number of branches, the prospective buyer need not be a bank or indeed from overseas. Murray Johnstone was keen to expand its international business and would be interested in working with any partner which could bring a large amount of money for it to invest.

About 70 per cent of the shares in Murray Johnstone's parent company are held by Murray Income, Murray International, Murray Smaller Markets and Murray Ventures. The remaining 20 per cent of shares are held by directors and other members of staff. The search for a buyer is being conducted by Phoenix Securities, the subsidiary of the merchant bank Morgan Grenfell which specialises in financial institutions.

Piecing together the £1bn marriage

David Lascelles looks at the progress of Morgan Grenfell's integration with Deutsche Bank

One of the most closely watched marriages in the international banking business is that between Deutsche Bank and Morgan Grenfell.

But nearly nine months after Germany's largest commercial bank bought the *City of London* merchant bank for close on £1bn ($1.8bn), there is little for the outside world to judge it by: no big cross-border deals or joint financings, not even any tell-tale *changes in management.*

The only obvious evidence of *progress was the establishment* in Frankfurt this summer of Deutsche Bank *Morgan Grenfell*, a consultancy specialising in *mergers and acquisitions.*

But the outward appearance belies *some of the work* that has been done behind the scenes to mesh the two banks' operations. "I think we have made good progress in trying to put things together," says Mr Hilmar Kopper, Deutsche's chief executive. "Co-operation is good. People talk to each other – have quite a bit of respect for each other."

Deutsche's master plan is to have Morgan spearhead its move into the merger and acquisition (M&A) business worldwide, and provide investment banking support for the rest of the group. (DBMG is a subsidiary of Morgan Grenfell rather than Deutsche.) Morgan's other strength – fund management – is also to be allied to Deutsche's to form one of Europe's largest fund management groups.

But the challenge is to bridge the two banks' vastly different cultures, and prevent other potentially distracting events like the unification of Germany and the slump in the investment banking market from getting in the way – all things which sceptical competitors expect to be stumbling blocks.

A series of meetings and weekend conferences has been organised to bring Morgan and Deutsche staff together. Mr John Craven, Morgan's chairman, has toured Deutsche's *German* network making presentations to its regional boards and top clients. He himself has become a member of the main Deutsche Bank board, a post for which he had to learn to *speak German.*

But so far, more seems to have *happened at the German end* than the British. While Mr Kopper says his bankers have welcomed the arrival of the mer*chant bankers from the City,* Mr Craven admits his own people *have been slower to promote the* services of their new parent. "It's *a matter of education,*" he *says.* "Achieving the proper level of cross referrals *will take a great* deal of time."

Mr Kopper emphasises that Deutsche Bank is sensitive to a merchant bank's need for independence. "We don't want to blend the cultures into a new average. In traditional merchant banking, people think, talk and write English."

Mr Craven says Morgan's new status has obviously raised questions about its independence. "But the reality is that we have not lost a single person of importance. We have gained clients and lost none. Enthusiasm has been sustained. The business has become a pleasure to manage."

However, the two banks are having to learn to manage conflicting interests. For example, Deutsche Bank is one of the lead lenders to Eurotunnel, but Morgan finds itself on the other side of the fence advising the troubled company on its new rights issue. Mr Craven says: "Deutsche Bank have been most supportive. But I don't pick up the phone to them and ask them what to do." Says Mr Kopper: "We made it clear one side should not rely on the other side being pushed into it."

Morgan is also advising Continental, the German tyre maker in its proposed *alliance with Pirelli.* Deutsche Bank is one of Conti*nental's largest shareholders* with 5 per cent, and says it is *taking a "neutral" stance.*

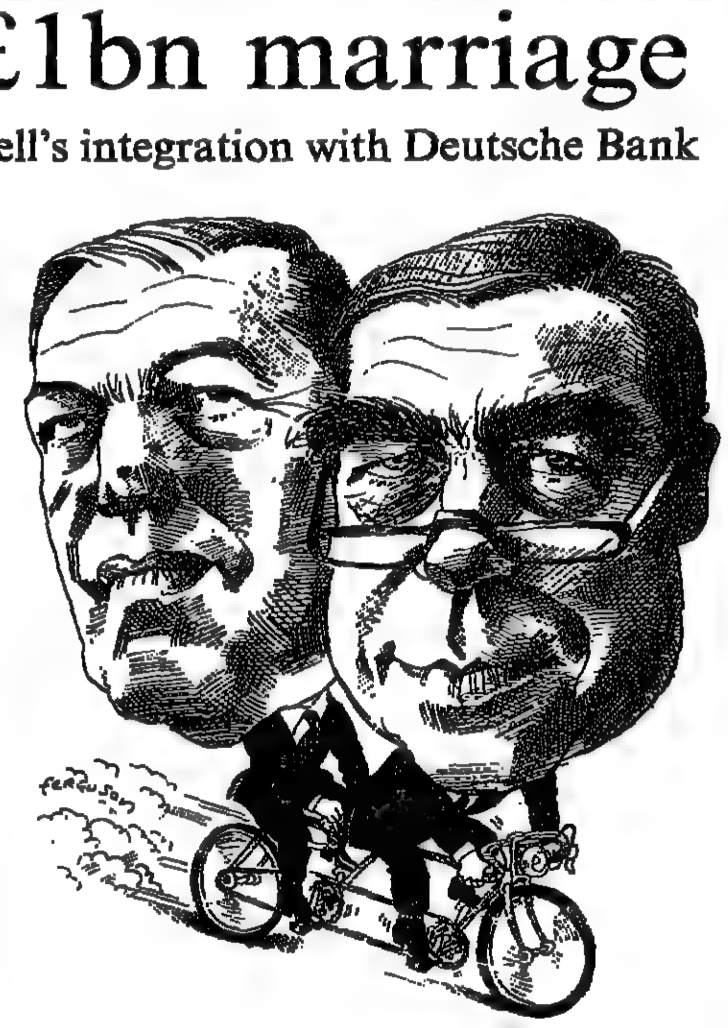
Two events would not have *happened* without Deutsche Bank's support, Mr Craven *believes. One was Morgan's new* trans-Atlantic corporate finance *alliance* with Gleacher & Co, a New York M&A specialist firm formed by Eric Gleacher, the former head of international M&A at Morgan Stanley. The other was Morgan's hiring of the com*plete 50-strong asset trading team* from Libra Bank, the former consortium bank. "They came to us because we are a stable organisation with access to a substantial portfolio of assets," he says.

Even so, Morgan's performance this year will be disappointing because of the fall-off in merger business. Mr Kopper says: "That doesn't worry us. We didn't make this investment to judge it by the first year's result."

What sort of a return is he looking for? "We want a direct return that is reasonable compared to other investments we could make with the money." He stresses the word direct; the indirect benefits of the merger will be hard if not impossible to measure, he says.

But where will the direct benefits come from? The creation of the single market in Europe is seen as a big potential source of business as whole industries shake down into new structures. The deregulation of the German fund management business, in particularly the introduction of funded pensions, should give big scope for Morgan's fund management expertise.

And the modernisation of East Germany should spur demand for Morgan's corporate finance skills. DBMG is planning to open an office in Berlin. "There are 8,000 companies for sale in East Germany" says Mr Kopper. "We are the most active bank in that country and we have access to virtually all of them. This should not be a closed-shop German thing. Morgan can do a valuable job."



Putting things together; Hilmar Kopper (left) and John Craven

Economics Notebook

Praise in Trinidad trouble in Washington

Peter Norman reports on a mixed week for the UK chancellor

LAST week was one of mixed fortunes for Mr John Major, the UK chancellor.

His unveiling of a four point plan to help the poorest, most heavily indebted countries at the Commonwealth *Finance* Ministers' meeting in Trinidad earned him fulsome praise and instant popularity among his fellow ministers, most of whom were from the Third World.

After hitching a lift to The International Monetary Fund meeting *in Washington* with Mr Michael Wilson, the Canadian Finance *Minister*, he was plunged on Friday into a mini-sterling crisis and *new controversy* about Britain's eventual entry into the *exchange* rate mechanism of the European *Monetary System.*

The Chancellor has long *insisted that there* should be no doubt about his intention to *take Britain into the ERM* when he is satisfied that the *conditions* are right. It is little wonder, therefore, that a cer*tain* weariness has crept into his responses to persistent questioning about the EMS. But last Friday he added a little to the debate about when Britain enters the ERM by underlining the importance of future relative inflation rates.

"What really matters, is what happens from now on," he said. "The rise in oil prices is affecting both our inflation rate and that of our European partners. Indeed, in some ways we are better placed than others to handle oil price rises."

The latest edition of the IMF's World Economic Outlook gives some idea of what the Chancellor meant. It projects a sharp fall in UK consumer price inflation from August's 10.6 per cent level to just above 5 per cent by the end of next year.

Over the same period, the *IMF sees* Germany's rate moving up from under 3 per cent to around 4 per cent *and Italy's* inflation rate stabilising at around 5 per cent. *Of the lead*ing existing ERM nations, only *France is expected to achieve* further success on the inflation *front with its consumer prices* rising by less than 3 per cent *by the end of* 1991.

Such circumstances in a *year's time would satisfy* Mr Major's ideal of Britain's inflation being *"proximate"* to that of its EC partners. But he has left himself plenty of scope to determine the exact date of ERM entry at any time after this process of convergence has begun.

Interestingly, several senior officials in Britain's EC partner countries believe ERM entry will come soon.

Debtor Problems

The Chancellor's debt initiative – if approved by the other members of the Paris Club group of industrialised creditor nations – could go some way to easing the lot of those poorest developing countries that stand to lose from the recent surge in oil prices.

But Britain's plans to improve significantly the so-called Toronto *Terms* for cutting the official debts of poor nations were in preparation long before Iraq invaded Kuwait *at the beginning of* August. While industrial nations have prospered, *there* has been a steady build up of *these nations' debt load despite* frequent rescheduling.

Highlighting the problem, an IMF background paper prepared *for this* week's *annual* meetings of the IMF and World Bank said *only five of the 50* countries which obtained Paris Club rescheduling *of their offi*cial debts since the onset of the debt crisis at the beginning of the 1980s overcame their problems and returned to normal *debtor-creditor relationships.* Separate internal World Bank and *IMF studies paint a grim* picture of the debt problem of *the poorest* heavily indebted nations over the past 10 years.

The IMF said their medium- and long-term debt almost doubled between 1982 to 1989 to $59bn, with the portion owed to official creditors growing to more than 90 per cent of the whole. The World Bank study, which encompassed short-term debt, said total external debt of severely indebted, low income countries rose two and a half times to $84bn over the past 10 years.

In both cases, the upwards trend is clear. Such growth rates in the stock of debt were the reason Mr Major decided to act.

Commonwealth Boost

It was noteworthy that Mr Major chose to unveil his initiative at a Commonwealth finance ministers' conference. In the past, these annual meetings have rarely featured high among the Treasury's priorities. However, the 50-nation Commonwealth has undergone a subtle change in recent *years. All* its members now subscribe to the ideals of the *market economy. The organisa*tion has also established modest but practical initiatives to promote the economies of *developing nations in the Com*monwealth.

One long-running project is the Commonwealth Fund for Technical Cooperation, which has a budget of £30m this year. This fund gives developing countries knowhow on matters such as budgetary control and debt management. Experts pro*vide advice on such matters* as how to formulate borrowing *policies and strategies* or *how* best to renegotiate debt with *commercial banks.*

The Fund has expanded its activities to promoting private *investment and mobilising* resources for development pro*jects through stock exchange* operations.

Its Technical assistance Group is assisting in the establishment of stock exchanges or improving their operations in Papua New Guinea, Mauritius and Ghana.

This month, the Commonwealth has set up an equity fund to channel institutional investment into Commonwealth developing nations.

The fund had an inauspicious start when Barclays de Zoete Wedd withdrew as placement agent and Nikko Securities from its planned role as underwriting agent. At $56.6m, it is smaller than the $75m to $100m originally planned.

But it secured the backing of the International Finance Corporation, the World bank affiliate which promotes private enterprise.

The fund is expected to begin investing in India and Malaysia. It is, also negotiating to gain access to markets in Sri Lanka, Jamaica, Botswana, Papua *New Guinea, Barbados* and Trinidad. Discussions are *also taking* place with Pakistan, Nigeria, Kenya Zimbabwe *and Cyprus.*

The above list illustrates the wide variety of nations that make up the Commonwealth. It includes all types of economy from the industrialised Group of Seven countries such as the UK and Canada, through newly industrialising nations such as Malaysia, small island states to the impoverished nations of Sub saharan Africa. In an interdependent world, it therefore provides a forum for sharing experience and understanding.

Interview with Michel Camdessus, managing directors of the IMF, Back Page

Banks mull $51m loan to Goodman

By Kieran Cooke in Dublin

A GROUP of 33 banks owed *more than I£450m by Good*man International are due to *decide today whether or not to* advance a further I£30m *($51.7m) of emergency* working capital to Ireland and Europe's biggest beef processor and exporter.

If the additional funds are not forthcoming the Examiner appointed *to* oversee Goodman International's affairs would be forced to either look elsewhere for cash to cover costs during the present cattle slaughtering period, or close the company's operations.

Mr Larry Goodman, head of Goodman International, has apparently agreed that other privately held assets be brought under the Examiner's control. However, some banks have made it clear that they have lost trust in Goodman and are likely to advance strong arguments against any further funding for the group at today's meeting between bankers' representatives and the Examiner.

In another development representatives of the Goodman group will today be involved in court proceedings in Cyprus over what they say is a fraud against the company involving up to I£35m. Mr Goodman says that I£20m lodged in the bank *account of an import/export* company in Paphos, Cyprus is *part of a loan he raised from* Barclays Bank, Dublin, earlier *this year. In a complex piece* of financial orienteering, the money apparently made its way via the Channel Islands, *London* and *Luxembourg* to Cyprus.

Mr Goodman has issued writs against Barclays and its *Irish subsidiary, Mercantile* Credit as well as a Dublin *financial services company* over the alleged missing funds.

COMPANIES AND FINANCE

Cluff Resources to raise £11m via Zimbabwe flotation

By Kenneth Gooding, Mining Correspondent

CLUFF RESOURCES, the USM-listed gold mining company, is to float 15 per cent of its subsidiary in Zimbabwe to raise Z$52.5m net (£11m).

Terms of the float, fully underwritten by Standard Chartered Merchant Bank, Zimbabwe, value the subsidiary at £78m compared with the value of £36m placed on Cluff as a whole in the London market.

Mr Algy Cluff, chairman, said he believed it was the first time a foreign company had listed on an African stock market (outside South Africa) for 30 or 40 years.

Cash raised from the flotation will be retained in Zimbabwe, eliminate Cluff Zimbabwe's debt, leave it with about Z$20m of cash and a further Z$20m of financial facilities.

This will enable exploration and expansion plans to be speeded up and could also be used to seize other mining opportunities as they occur.

Parallel with the Zimbabwe flotation, expected to become effective not later than October 16, Cluff will move from the USM to a full listing.

Cluff has also reported a 28 per cent improvement in taxable profits for the half-year to June 30, from £790,000 to £1.01m.

Gold production in Zimbabwe was up 18 per cent on the same period last year to 34,606 troy ounces. Cash operating cost of production (which excludes interest and depreciation, depletion and amortisation) equated to about US$253 (£252) an ounce. The gold was sold for £228 an ounce, against £231.

As before, there is no interim dividend but Mr Cluff said the company expected to pay a final.

All-round growth lifts Liberty 24%

All-round improvements enabled Liberty, the retailer and wholesaler of upmarket goods, to raise pre-tax profits by 24 per cent from £2.1m to £2.6m in the six months to July 28 1990.

Turnover grew 14 per cent to £41.3m. Earnings per share climbed from 7.22p to 9.27p, while the interim dividend has been raised from 1.4p to 1.7p.

Mr Harry Weblin, the chairman, said the directors were confident that the diversification strategy built around core activities placed the company in a better position than most textile orientated UK companies to maintain profitable growth.

The retailing side turned in a profit this time of £8,000 (£435,000 loss), while converting and wholesaling improved profits from £2.07m to £2.46m, and printing made £554,000 (£520,000).

Interest payments rose from £282,000 to £631,000 in the period.

Taveners £78,000 in red midway

Although gross profit margins were much in line with last year, heavier operating expenses left Taveners, the Liverpool-based confectionery maker, £78,000 in the red for the first half of 1990, compared with a £138,000 pre-tax profit last time.

Mr William Tavener, said the company ran into unforeseen production problems associated with the start-up of a new product which was not only costly in itself, but led to production inefficiencies and shortage of supply at a crucial time.

In August, a serious mechanical failure on the marshmallow plant resulted in Taveners being totally out of stock for three weeks and the wastage of much product. Mr Tavener said in view of lost sales and the cost of remedying these problems, the company was likely to show a full year loss.

First-half turnover was £5.64m (£5.13m). There was again no tax and loss per share came to 2.7p (4.77p earnings).

Turkish group plans to change BCMB name

By Richard Waters

ÇUKUROVA Group, the Turkish group seeking to buy British & Commonwealth's Merchant Bank, intends to change the bank's name to end associations with the collapsed UK financial services group, a senior executive said.

In an interview, Mr Melih Araz, president and chief executive of Interbank, a subsidiary of Çukurova, said the new name had not yet been decided but would reflect its image as a British merchant bank, rather than its new Turkish parentage.

Çukurova, which expects to pay £40-£50m for the bank, will use its acquisition to help raise funds in London for Turkish companies, said Mr Araz. It would strengthen BCMB's syndications and corporate finance areas, while dropping its private banking division.

Mr Araz attacked suggestions that the Bank of England might be unwilling to authorise Çukurova to own a UK bank on the grounds that it is a diversified industrial group and, as such, was a more risky parent than a bank. Half the group's profits and 80 per cent of its assets were in the financial area, he said.

However, much is non-banking, such as leasing and insurance, and so outside the scope of banking regulators, in the same way as the Atlantic Computers leasing business which brought B&C to its knees.

Çukurova expects most of the £100m in BCMB which belongs to private depositors to be withdrawn as soon as the bank, which is in administration, is allowed to re-open. To cope with this liquidity problem, it is planning to sell off part of BCMB's loan book, as well as putting in place a line of credit as a backstop. It also intends to seek the continued support of the banks which are BCMB's creditors.

Çukurova has been given exclusive negotiation rights until the middle of October, and hopes to complete its acquisition by the end of the year. A review of the loan book has has revealed the need for a higher level of provisioning against property loans, said Mr Araz.

The bigger players now rationalising

David Thomas on the changing trend of takeovers in the waste management industry

BRITAIN'S fast-growing waste management industry seems determined to buck the trends. Amid all the talk of recession, it is booming. With takeover activity at a low ebb, the sector is beset by mergers and acquisitions.

Until now, takeovers in the industry have tended to take one form: small private companies have been swallowed by one of the industry's larger players. But last week the rationalisation moved into higher gear.

On Tuesday, Leigh Interests made an all-paper recommended offer for HT Hughes, which valued the USM-quoted company at £33m. On Friday morning, Severn Trent, one of the privatised water companies, launched a £78m hostile cash bid for Caird, and later in the day lifted its stake from 5.1 to 23.6 per cent.

If both bids go through, two of the six UK quoted waste management groups will disappear into larger concerns. And they will do so at what, by the standards of most sectors, would be generous prices: Severn Trent's bid values Caird at 21.8 times its forecast profits for 1990, while Leigh's offer represents a multiple of 26 times Hughes's earnings in the year to February 1990.

Why is such an unglamorous industry so highly rated? What is driving this rash of acquisitions?

For an answer to both questions, consider the value of holes in the ground – particularly when they come complete with planning permission for use as waste dumps, known euphemistically in the trade as "landfill sites."

Most of the UK's fast growing waste mountain is dumped in landfill sites, yet waste management companies have to jump ever higher hurdles to win planning permission for the dumps. The inevitable result is higher site values.

Mr Edmund Bradley, an analyst with Citicorp, says, for example, that Shanks & McEwan paid less than £1 a cubic metre in 1986 when it acquired landfill rights in the south-east of England from Hanson, the industrial conglomerate. Mr Bradley now values Shanks & McEwan's sites at £2.75-£3.50 a cubic metre.

Mr Bradley has attempted to estimate the medium term value – after development costs have been incurred – of companies' landfill holdings (see table). He has concluded that the main value of most companies' lies in these sites. The exception is Attwoods, most of whose operations are overseas.

However, there is another side to the equation: higher environmental standards are forcing up costs. Many smaller outfits, technically and financially unable to keep up with the leaders, have sold out.

Leigh, for example, completed nine acquisitions for a total of £24.5m in 1989-90, while Shanks & McEwan has made over 20 since its Hanson deal, nearly all of them small.

"It really isn't a business for the small company any more...It's becoming like the US, where waste management is a professional industry for the big player," says Mr Roger Hewitt, managing director of Shanks & McEwan.

The Environmental Protection Bill will intensify this trend after it becomes law this autumn. Not only will it entail still higher standards for waste management companies, it will also place new requirements on waste producers. The latter are likely to turn increasingly to established high quality waste managers to take the problem off their hands.

They will find plenty of companies queuing for their business besides the quoted waste management groups. Several industrial conglomerates now have thriving waste management arms.

The main players include Biffa, a subsidiary of BET; Cleanaway, a GKN-Brambles joint venture; Cory Waste, owned by OTT; and Waste Management Ltd, which is owned by NFC and is distinct from the US company of the same name.

The water industry wants to diversify into waste management, as is evident from Severn Trent's bid for Caird. Northumbrian, Severn Trent, Southern, Thames, Welsh and Yorkshire water companies already have waste management subsidiaries; some observers expect others to follow.

Companies from North America and continental Europe are also showing an interest. Waste Management Inc and Browning-Ferris Industries, the two leading US waste companies, Laidlaw Transporation, Canada's biggest waste group, and French companies such as Saur are all either active or seeking to become established.

There are still plenty of smaller fish for them to swallow. The highly fragmented industry contains over 2,500 companies, mostly tiny and local, according to the National Association of Waste Disposal Contractors. The intriguing question is whether the larger players will continue to rationalise.

Mr Hewitt believes so: "I suspect there's going to be further rationalisation. One or two of the subsidiaries of conglomerates will be disposed of by their conglomerate parents."

By contrast, Mr Bradley says the conglomerates would be unwise to quit the business: it is both more profitable than many of their core activities and its value is set to rise. He predicts instead attempts to realise some of the value locked in the subsidiaries by partial flotations or joint ventures.

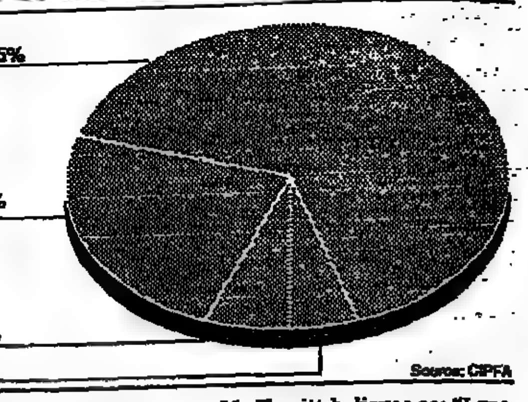
The Gulf-induced market decline, together with Caird's unexpectedly poor profit performance earlier this month, have knocked some of the shine off share prices in the sector. But most industry followers believe this to be a temporary setback: waste looks set to be one of the trendier industries of the 1990s.

VALUE OF LANDFILL SITES

COMPANY	CAPACITY (m cu m)	VALUE (£M)
Shanks & McEwan	80	220-280
Leigh	50	100-125
Caird	60	90-120
Attwoods	30	60-90
HT Hughes	15	34-45

Source: Citicorp

Methods of waste disposal



Source: CIPFA

Dinkie Heel shortfall

TAXABLE PROFITS at Dinkie Heel, the supplier of components to the footwear industry, fell by £66,000 to £172,000 in the first half of 1990.

The company blamed the harsher economic climate for the shortfall, but pointed out that the pre-tax figure had only fallen slightly compared with the £180,000 achieved in the second half of 1989.

It added that reorganisation had continued and that three of the four enterprise group sites had been consolidated into new, purpose-built premises.

Turnover rose from £3.95m to £4.17m for the period. Earnings however, dropped to 0.97p (1.35p) per share and the interim dividend is maintained at 0.35p.

Dairy Farm Intl. climbs to $78.6m

Dairy Farm International Holdings, the Hong Kong-based food products and dairy farm group, increased taxable profits from US$68.3m to $78.6m (£42m) for the six months to June 30.

Turnover rose to $1.4bn ($1.18bn), with operating profit at $54.6m ($47.9m). Tax took $13.8m ($13.3m). Earnings per share emerges at 3.55c (3.11c).

An interim dividend of 1.35c (1.15c) is declared.

LAST WEEK'S CROSS BORDER DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Pirelli (Italy)	Continental (W Ger)	Tyres	N/A	Pirelli offers marriage
Scottish & Newcastle (UK)	Center Parcs (Netherlands)	Holiday villages	£180m	Bid for 40% outstanding
Robert Maxwell (UK)/ Bertelsmann (W Ger)	Berliner Verlag (E Ger)	Publishing	£85-£100m	Buyers taking half each
Interpublic (US)	Lowe Group (UK)	Advertising	£79m	Surprise bid for agency
FAG Kugelfischer (W Ger)	Barden (US)	Ball bearings	£70m	US expansion: huge premium
Star Enterprises (US)	Florida store chain (US)	Retailing	£43m	Australia's Panfida sells
Bovis (UK)	McDevitt & Street (US)	Construction	£27.5m	US expansion for P&O unit
Usinor Sacilor (France)	ASD (UK)	Steel distribution		Green light for 20% stake
Eurocom (France)	Creamer Dickson Intl (UK)	Public relations	£10.75m	UK's Aegis streamlines
Rossignol (France)	Roger Cleveland Golf (US)	Golf clubs	N/A	Ski maker diversifies

Source: FT Mergers & Acquisitions International

Sensitive deals driven by industrial logic dominated the week, writes Brian Bollen. Bankers urge particular care with semantics when discussing the proposal from Pirelli Tyre to merge with West Germany's Continental. The Anglo-Saxon use of words like takeover, bidder and target is inappropriate, they say. This is a merger with no cash element. The deal – the industry's last major restructuring – would leave Continental as the surviving entity, still in fourth place in the world league of tyre makers. If it goes ahead, Pirelli will provide the chief executive of the new company and have ultimate management control.

Touching a raw nerve in Holland is Scottish & Newcastle's planned cash purchase of the outstanding 40 per cent of Center Parcs. Taking full control of the upmarket holiday village operator might make strategic sense but it is a sensitive issue. When S&N bought its original 60 per cent stake a year ago, it promised not to increase its holding for three years.

Transatlantic traffic was heavy. West Germany's bearing maker FAG Kugelfischer is expanding its North American operations by buying Connecticut-based Barden, a small specialist in precision ball bearings. UK builder Bovis also trumpeted major expansion with its second US buy. The P&O subsidiary's cash purchase of general contractor McDevitt & Street will double its US turnover.

French ski maker will complete its diversification outside winter sports by buying Roger Cleveland, a small US golf club maker.

Interpublic of the US surprised the City with its offer for Lowe Group, one of the UK's leading advertising agencies. Interpublic, which already holds 42 per cent of Lowe, said the acquisition offers a great opportunity to give Lowe the money it needs to expand internationally.

COMPANIES AND FINANCE

Banque Indosuez shows flat first half

By George Graham in Paris

BANQUE Indosuez, the merchant banking subsidiary of France's Suez group, has reported flat first-half profits in the face of the weakness of the dollar, poor stock market conditions and more difficult credit conditions.

The bank reported net profits of FFr512m ($96m), 2 per cent higher than in the same period of 1989, with lower banking income – down 1 per cent at FFr4.4bn – offset by a reduced tax charge.

Despite the Gulf crisis, Mr Antoine Jeancourt-Galignani, Indosuez's chairman, said he hoped to maintain full-year results in the same region as 1989's FFr1.03bn.

Indosuez's results have been affected by the weakness of the dollar, which accounts for around 35 per cent of its balance sheet, and by the fragility of world stock markets, especially Tokyo, where its broking subsidiary W. I. Carr has had to reduce its costs.

In addition, Mr Jeancourt-Galignani said credit quality had worsened in countries such as the UK, the US, Australia and Belgium, and the bank had more than doubled its client risk provisions to FFr290m in the first half.

Lending margins also narrowed, especially in France, where the reform of buyer's credit rules two years ago is beginning to have an impact on the market.

Indosuez had put aside FFr290m in provisions against loans to customers in the six months, up from FFr133m a year earlier. Mr Jeancourt-Galignani said higher reserves had been needed for loans in France, the US, Britain, Belgium and Australia.

Indosuez's Middle Eastern subsidiary, Bank al Saudi al Fransi, doubled its first-half profits. The effect of the Gulf crisis on Indosuez's full-year profits is estimated at around FFr50m.

Hachette is offered control of La Cinq

By William Dawkins in Paris

HACHETTE, the leading French publisher, has been offered effective control of La Cinq, the loss-making private television channel, in what looks like the last chapter in an 18-month battle for supremacy between some of Europe's main media barons.

The channel's current chairman, Mr Robert Hersant, owner of the right-wing Le Figaro newspaper, has asked the CSA, the French broadcasting industry authority, for permission to reduce his stake and allow Hachette and its backers to take the pole position.

Mr Hersant's long-rumoured decision comes nine months after he made a peace deal with Mr Silvio Berlusconi, the Italian television magnate who had tried to wrest control of the channel in one of the most acrimonious disputes in the volatile world of French broadcasting.

If accepted by the CSA, this will be the realisation of a dream for Mr Jean-Luc Lagardère, Hachette's chairman, who unsuccessfully tried to get control of TF-1, the leading private channel on its privatisation three years ago. The CSA will consider the proposal under anti-monopoly rules, which could take a month, given Hachette's size.

The publishing group reported an increase in turnover from FFr24.4bn ($4.6bn) to FFr29bn last year, on which net profits rose by 43 per cent to FFr469.3m.

Mr Hersant has given no reasons for wanting to reduce his stake, but La Cinq has lost FFr2.2bn since its launch in 1987 and has seen its audience share slip from 12 per cent to just under 11 per cent over the past year – mainly to the benefit of France's two public channels.

Mr Hersant proposes to reduce his own stake from 25 per cent to 10 per cent, while his chief ally, Mr Jean-Marc Vernes, the leading banker, would reduce his from 22 per cent to 4.1 per cent. This would open the way for Hachette to advance from its existing 22 per cent to 25 per cent, while three bank shareholders loyal to Hachette would buy another 20.1 per cent. Mr Berlusconi, meanwhile, would keep his existing 25 per cent stake unchanged.

No single shareholder can own more than a quarter of a television channel's equity under French broadcasting law, which explains why La Cinq's ownership has been vulnerable to upheaval.

Hachette bought into La Cinq in a shareholder reshuffle last May, making its first investment in television, to add to the several radio stations and television production companies it owned.

Chase AMP forecasts deeper losses

CHASE AMP Bank, bailed out over the weekend by its two parent companies, said its losses would deepen in 1990 due to a string of corporate collapses and the slowing Australian economy, Reuter reports from Sydney.

Chase AMP, one of 15 banks which have licence to operate in Australia, said it had received an A$80m (US$66m) capital injection from its parents, Chase Manhattan of the US and the Australian Mutual Provident Society.

"This additional capital is evidence of the confidence of both partners that over time we will build a profitable bank in Australia," said Sir James Balderstone, Chase AMP chairman.

"The general deterioration in the Australian economy and the concern that we currently have with some of our corporate borrowers has led us to believe that further loss provisions may be required," Mr Balderstone said. "These provisions, and the cost of funding loans not paying interest, will lead to a 1990 loss in excess of that in 1989."

Chase AMP lost A$29.9m in 1989 and set aside loan loss provisions of A$51m.

Hong Kong Land plans to adopt a more international image

By Angus Foster in Hong Kong

HONG Kong Land, the property arm of the Jardine Matheson group, has announced plans to adopt a more international image and broaden its shareholder base.

The company is seeking a listing on the International Stock Exchange in London for its shares and warrants. It is also launching a sponsored American Depositary Receipts programme and redenominating its share capital into US dollars. The moves follow the company's listing on the Luxembourg Stock Exchange in March.

Hong Kong Land's decision was expected because two other companies in the Jardine group, Jardine Matheson and Dairy Farm International, were listed in London earlier this year.

More than 99 per cent of the company's assets are based in the colony.

The company is the largest landlord in Hong Kong's central financial district. Hong Kong Land has said for over a year it plans to invest overseas but has not done so yet.

Jardine executives say overseas listings by companies in the group are business decisions aimed at increasing their international exposure and overseas shareholders base.

But some analysts say the moves are equally politically inspired. They recall that Jardine was the first Hong Kong company to switch domicile to Bermuda in 1984.

That move was interpreted as an attempt to distance the group from Hong Kong and its uncertainties in the lead up to the colony's return to Chinese sovereignty in 1997.

Obtaining overseas listings is seen as the next step towards an "insurance policy" on the handover.

Hong Kong Land announced the moves as it reported a 32 per cent rise in interim net profits to US$129.6m. The company presented its accounts in US dollars rather than Hong Kong dollars for the first time.

Mr Simon Keswick, chairman, said rental levels for the company's portfolio of office and commercial space fell slightly compared with last year. Hong Kong's property market was shaken by last year's crackdown in Peking and is now readjusting after several years of undersupply.

But Mr Keswick said Hong Kong Land's average rentals are still below market levels. The company is therefore gaining from rental reversions as clients renew leases.

Hong Kong Land is paying an interim dividend of 2.75 US cents a share, an increase of 34 per cent on the corresponding period last year.

Swiss machinery sales improve

GEORG FISCHER, the Swiss machinery group, saw group sales improve by 4 per cent to SFr1.6bn ($1.2bn) in the first eight months of 1990, AP-DJ reports. The company reiterated that group net profit for 1990 would show an improvement. In 1989, Fischer posted a net of SFr73m.

Hang Lung advances 5%

By Angus Foster

HONG Kong's Hang Lung Development, the property and hotel company controlled by the Chan family, has announced a 5 per cent increase in net profits to HK$986.3m (US$127m) in the year to the end of June.

But the figure was adversely affected by provisions for losses on Australian disposals. Turnover during the year jumped 43 per cent to HK$3.07bn and the company is recommending a final dividend of 25 cents. Combined with the interim dividend of 16 cents, total distributions for the year are increased 10.8 per cent to 37 cents a share.

The company said its property investment arm reported the best results. Hang Lung won a government tender to redevelop a site on Hong Kong's Peak, and will now spend HK$750m turning it into a commercial complex.

Subsidiary Amoy Properties announced a 28.6 per cent increase in net profits to HK$609.9m during the same period. The company is increasing its total dividends for the year by 15.2 per cent to 26.5 cents.

Air Canada considers cuts

RISING FUEL and wage costs are forcing newly privatised Air Canada to consider severe cutbacks, including staff lay-offs and "parking" more aircraft and dropping aircraft order options, writes Robert Gibbens.

The company would say only that Mr Claude Taylor, the chairman, will announce rationalisation plans shortly.

Some analysts say Air Canada, privatised last year, will have to cut about 2,000 jobs. It has already announced plans to park eight L1011 aircraft throughout the coming winter.

INTERNATIONAL CAPITAL MARKETS

DUTCH BUDGET

Investors stay glued to sidelines

LAST week's budget for 1991 failed to provide much direction for the listless Dutch government bond market where most investors have retreated to the sidelines because of the political crisis in the Middle East and worries about the escalating cost of German unification.

The budget showed that the Government's finances are on course, with the budget deficit for 1991 scheduled to fall to 4.75 per cent of net national income from 5.25 per cent this year. The 1991 figure is in line with targets set by the Dutch centre-left coalition when it took office in late 1989.

But the budget's data were overshadowed by the Government's own admission that its finances are looking decidely perilous for the years 1992, 1993 and 1994, thanks in part to recent rises in interest rates and the lower-than-expected trend in tax revenues.

Prices of government bonds fluctuated by 0.10 to 0.30 points in light trading for most of the week, with the yield on the most recently issued 10-year state bond hovering around the 9.2 per cent mark.

On Tuesday, the day of the budget, the finance ministry's agent halted the sale of the Government's latest 9 per cent tap issue, and the agent did not reappear in the market for the rest of the week, underscoring the prevailing hesitant sentiment.

Indeed, rather than bringing certainty to an unsettled market, the budget simply focused attention on the Government's upcoming "mid-term review" in early 1991, when the cabinet will reassess its policies and possibly readjust them, depending on the economic outlook.

"As far the Dutch domestic situation is concerned, the market is far more interested in what's going to happen in 1991 than in 1991 itself," one bond analyst said.

The most important factors affecting the market are all international: oil prices, the Gulf crisis and the outlook for the financial costs of German unity. The budget itself has had little impact.

Budgets in the Netherlands are, in any case, less important as policy-making statements than they are in many other European countries.

In recent years, the most closely-watched political document in the Netherlands has been the coalition agreement signed by the incoming Government at the start of its four-year term. Subsequent budgets are then judged according to whether or not they meet the targets laid down in the coalition accord.

The 1991 budget calls for a rise in the central government's borrowing requirement to Fl 43.8bn from Fl 42.7bn in 1990. The Government has already made good progress towards raising the 1990 figure, with nearly 90 per cent of the total amount currently covered through a combination of state bond issues and private placements. The latest 9 per cent tap issue, which has already brought in more than Fl 3bn, marks the second time the Dutch Government has used the tap, or "counter," system since it introduced the option in early 1990.

Under the traditional "blind tender" method, the Government first announces the coupon on the latest state loan and then fixes the issue price about a week later, based on subscriptions received from the market.

Because this week-long gap between the announcements on coupon and issue price can be risky in times of turmoil on the capital markets, the Government prefers the daily fine-tuning provided by tap issues.

Ronald van de Krol

NRI TOKYO BOND INDEX

December 1983 = 100	20/9/90	Average yield† (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	140.58	8.64	141.12	145.94	141.86
Government Bonds	137.11	8.56	137.46	143.57	139.58
Municipal Bonds	141.92	8.63	142.85	148.10	143.18
Govt.-guaranteed Bonds	145.09	8.82	145.94	150.53	145.71
Bank Debentures	139.65	8.76	140.27	143.11	139.22
Corporate Bonds	144.35	8.49	144.83	148.80	145.75
Yen-denom. Foreign Bonds	149.29	8.82	149.75	154.40	151.87
Government 10-year†	7.83		7.74	6.72	6.98

† Estimated par yield

Source: Nomura Research Institute

US MONEY AND CREDIT

Spotlight is on politicians and oil

A BIRD in the hand may be worth two in the bush. But cast the adage in a more malevolent light, and one could equally well conclude that the bird nipping at one's fingers is far more painful than the flock waiting to descend from the nearby trees.

So it seems with the US economy, its administrators and, by implication, the focus of the bond markets.

On the one hand, an economic downturn looms large on the horizon, and is widely expected to lead to an easing in interest rates at some stage.

Politicians and economists may quarrel about the definitions of recession, but they cannot deny that the string of companies announcing lay-offs and closures grows longer every day. Last week, for example, it embraced a near-10 per cent workforce reduction at Pan Am, and culminated in 5,000 job losses at Chase Manhattan, the country's second largest commercial bank. Nevertheless, it is the inflationary threat and the shadow of Saddam Hussein which appear to be calling the immediate shots.

Pressures on this score were writ large last week, as statistics showed consumer prices rising by 0.8 per cent in August. This brings the rise in the consumer price index to 6.2 per cent this year. As one Wall Street analyst put it: "The inflation risk is at the front door; the recession risk is on its heels."

That, at any rate, was the conclusion being reached by the bond markets in the wake of Wednesday's utterances from Federal Reserve chairman, Mr Alan Greenspan – a ranking of priorities which appeared to be echoed by the G-7 meeting at the weekend. Addressing the joint economic committee of congress, Mr Greenspan made the not entirely surprising observation that recent oil price hikes were pushing the US closer to recession and that the core (non-oil, non-food) inflation rate was also rising.

This, he indicated, was frustrating any effort to mitigate the impending slump by a reduction in borrowing costs. On this occasion, the markets thought they knew where they were. Down went the price of short-dated notes, as the prospects of an early cut in rates receded, and up went long-term bonds, cheered by this reassertion of the anti-inflationary stance. Just to give weight to the Fed chairman's words, the World Bank provided a timely observation that oil prices could head for $65 a barrel if the Middle East crisis developed into all-out war.

But there was, of course, another twist to Mr Greenspan's remarks. For some weeks, the bond markets have been have been watching every tweak and twitch coming out of Washington as Congress and the Administration battle to find an acceptable package of budget deficit reductions. With his emphasis on the inflation fight, the markets decided, the Fed chairman was saying that a reduction in rates could only come about in the short term if a credible package of cuts was achieved. Even then, as one analyst phrased it, "the best possible budget outcomes would not prove decisive."

Certainly, progress on the budget front is painful, and by the end of the week the odds on success looked little higher than at the beginning. Indeed, the markets' latest concern is that the automatic cuts, which are due to come into play at the beginning of October should no agreement be reached, might be postponed. And that – amid the lack-lustre trading of the Jewish holiday – was enough to send bond prices lower across the board. In the closing sessions, for example, the Treasury's benchmark 30-year bond gave up all the ground it had gained mid-week. By Friday's close, it was yielding 9.12 per cent, compared with 9.01 per cent seven days earlier, and back within shouting range of its worst August levels.

Amid such torrid conditions, there is not a lot that the markets can do, but wait. The week ahead will throw up little new economic data of significance, and the onset of the next quarterly reporting season, which may focus attention back on the corporate sector, is still a few weeks away. Oil prices and politicians, on the other hand, are right in the centre of the spotlight.

Nikki Tait

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.13	7.75	8.00	9.92	7.96
Three-month Treasury bills	7.59	7.57	7.69	9.11	7.28
Six-month Treasury bills	7.72	7.63	7.86	9.37	7.18
Three-month prime CDs	8.22	8.02	8.19	10.35	7.66
30-day Commercial Paper	8.07	8.00	8.00	9.95	7.87
90-day Commercial Paper	7.95	7.80	7.95	10.05	7.70

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	98-7/32	-19/32	8.84	8.72	8.90
20-year Treasury	101-21/32	-31/32	9.16	9.05	9.20
30-year Treasury	96-5/32	-1 1/8	9.12	9.01	9.25

Money supply: In the week ended September 10, M1 rose $506m to $820.5bn.

UK GILTS

Audience at ERM saga holds its breath

THE great exchange rate mechanism mystery story deepened last week, providing much excitement for the gilt-edged securities market.

The mystery has as its central character Mr John Major, the Chancellor, who wants to take Britain into the ERM, part of the European Monetary System, but has not said when.

The gilt market suspects Mrs Thatcher, who has a veto over the idea, could play a big part. Mr Karl Otto Pöhl, the Bundesbank president, is Big Brother.

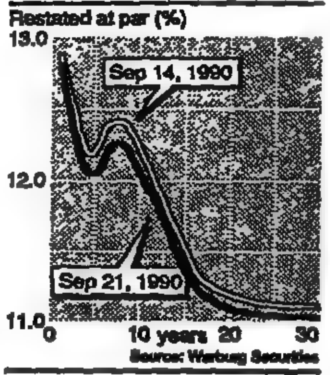
Last week the gilt market moved slightly upwards as a series of economic indicators, including figures on UK monetary growth and gloomy profits statements from industrialists, gave evidence that Britain is sliding into recession.

This can be interpreted as meaning Mr Major is nearer lowering interest rates and boosting gilts.

But the upward movement was restrained by the general feeling in the market that a decision may not be taken until well into 1991.

UK gilts yields

Restated at par (%)



Source: Warburg Securities

The benchmark Treasury 2008 bond moved up over the week from 83¼ to 83¾, a barely perceptible change, with the yield falling from 11.20 per cent to 11.11 per cent. Similar movements were seen along the yield curve (see illustration).

The ERM factor enters the story because many in the gilt market had assumed Britain would enter the mechanism soon, giving Mr Major the opportunity to cut rates.

However, in the past few days, many financial analysts have swung to thinking that – despite the signs of recession – the Government will keep interest rates at current levels for some time. That would fit in with putting ERM entry on hold, until clear signs emerge that UK inflation is closer to the European average.

This point was underlined by Mr Pöhl last week in Frankfurt.

Discussing European Monetary Union, he talked about the problems of meshing the monetary systems of European nations which have differing economic performance.

There was a clear, though unspoken, reference to Britain. Although some in the UK thought that the Bundesbank supremo was making a dig at Britain's economic management, in reality he was stating the obvious.

In determining the UK stance on the ERM/interest rate issue, Mr Major and Mrs Thatcher will have to consider Mr Pöhl's message.

One overriding problem is the damage to sterling, hinted at by the pound's fall last week, which could follow too much uncertainty.

The UK Government would also gain a political boost from early ERM entry followed by a cut in rates, and this could persuade it to move in this direction.

As for what happens next, ERM discussion is a growth industry and nuances will no doubt emerge over the next few days.

For the moment, keep reading the tea leaves.

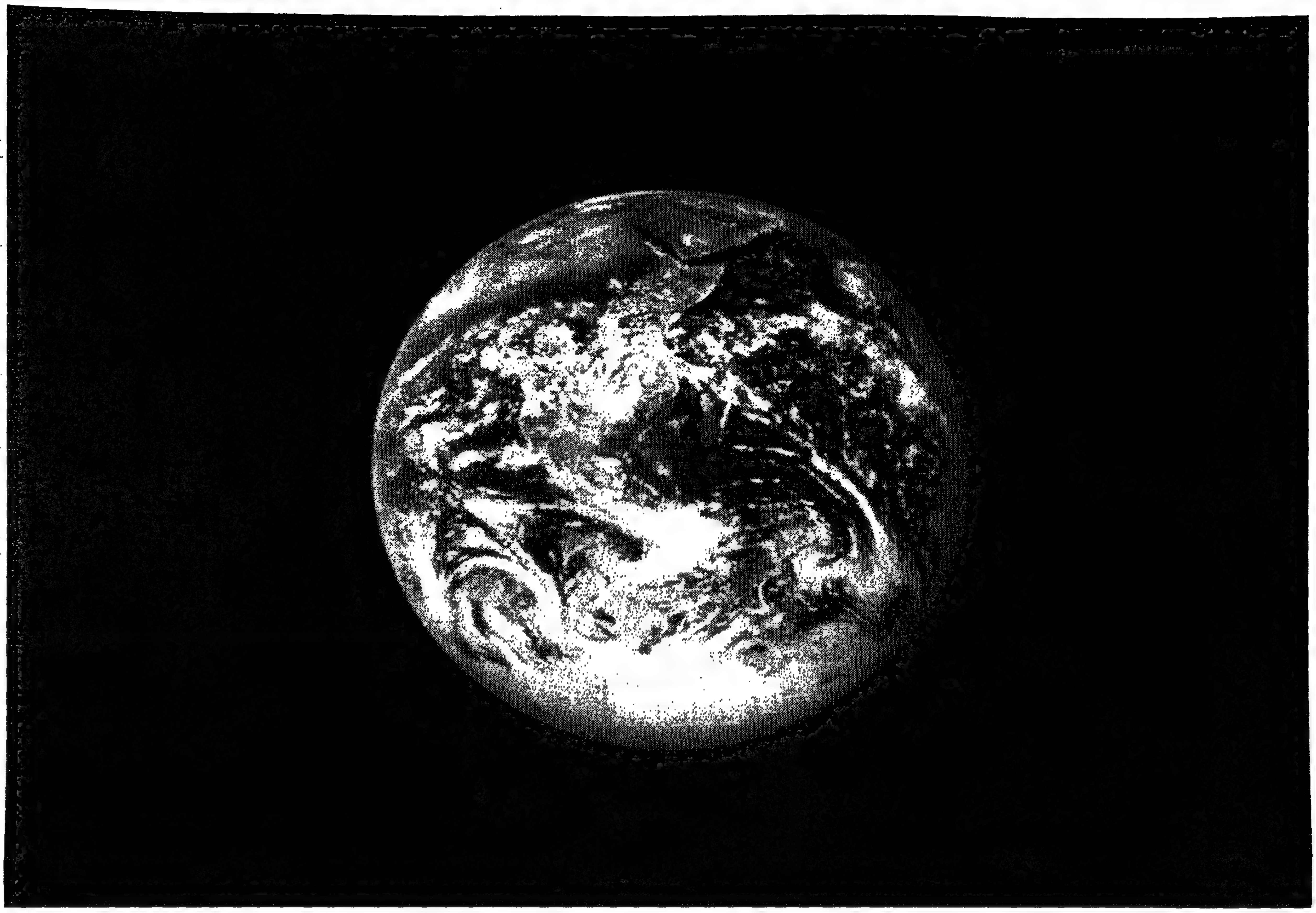
Peter Marsh

FT/AIBD INTERNATIONAL BOND SERVICE

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

Closing prices on September 21



INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Many corporate borrowers steer clear

THERE is much shaking of heads among syndicated loan officials as they bemoan the parlous state of the market.

There is talk of both US and Japanese financial institutions selling European loan portfolios into the secondary market to boost capital at home.

In particular, capital adequacy problems in Japan have forced some of the biggest syndicated lenders to pull back.

"If the price is right and they really like the borrower, the Japanese banks might commit a few million pounds to a deal," commented one senior syndicate official. "But I expect margins to move out by as much as 50 basis points and commitment fees by up to 20 basis points to get future deals off the ground."

Against this background many corporate borrowers are steering clear of the market, having arranged facilities at extremely fine rates over the past three years. However, not all borrowers can afford to wait or have access to lines of equity finance. For example, property developer Rosehaugh saw its share price fall by 30p to 72p on Thursday, against a 12-month high of 476p. A deep discount rights issue this year has effectively closed the door to more equity funding.

Yet despite the widespread gloom among arrangers and a traumatic downturn in the property sector, in July County NatWest arranged underwriting for a £280m four-year "construction facility" to enable development partners, Rosehaugh and Stanhope, to complete the Ludgate development, near St Paul's Cathedral.

The pricing is as yet undisclosed, but the underwriting banks are taking the loan into syndication in the next couple of weeks. The full underwriting group comprises County Natwest, Kleinwort Benson, National Westminster, Bank of America, Bayerische Hypotheken, Fuji Bank, Mitsubishi Bank and Sumitomo Bank.

The presence of three leading Japanese institutions in the underwriting group demonstrates, at least, that the Japanese banks are prepared to consider property deals for the right borrower. However, underwriting was finalised shortly before the Gulf crisis erupted.

When margin and fees eventually come to light they will make interesting comparison with similar £300m and £350m facilities raised by Rosehaugh Stanhope in 1987 and 1988 respectively.

The 1987 deal was raised to fund initial work on the massive Broadgate office development. Then the margin ranged between ⅛ and ¼ of a point over the London inter-bank Offered Rate. Of the 26 lending banks involved in 1987, 14 were Japanese institutions, and just five British.

Another property deal in the market is an unsecured 5-year £200m syndicated facility for British Land, one of the best-known names in the sector. Arranged by National Westminster, the deal carries a margin of 35 basis points over Libor. British Land has previously raised two 5-year unsecured syndicated loans, £200m in 1989 and £150m in 1988. Both facilities carried a margin of 15 to 20 basis points over Libor, suggesting the borrower had to give substantial ground on margin to raise funds.

Even for less well known property groups, syndicated loan finance is available but at a price. Last month Dublin-based property group Power Corporation arranged a £100m unsecured facility through Irish Intercontinental Bank, on a margin of 1 per cent over Libor. It plans to use the funds to acquire prestige sites in the UK and Europe. The company thinks there is money to be made if resources to enter the "buyers' property market" can be secured.

Simon London

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	1,332.1	40.0	162.0	14,417.3
Prev	916.2	0.0	605.0	14,182.6
Other	1,213.7	0.0	370.0	6,371.8
Prev	1,027.2	0.0	72.4	9,059.0
Secondary Market				
US$	16,403.1	717.8	5,695.1	7,948.0
Prev	15,526.4	540.0	5,962.7	7,540.7
Other	19,077.8	1,062.9	4,554.1	32,224.8
Prev	17,558.1	1,242.2	3,259.3	30,996.6

	Cedel	Euroclear	Total
US$	17,048.6	29,666.8	46,715.4
Prev	17,682.7	27,590.9	45,273.6
Other	24,444.2	40,431.7	64,875.9
Prev	25,025.1	38,189.7	63,214.8

Week to September 20, 1990

Source: AIBD

INTERNATIONAL BONDS

European convertibles take stock of equity losses

CONVERTIBLE BONDS are designed to provide protection against stock market falls. Although convertible bonds outperformed stocks last week, when European share prices hit their 1990 lows, losses on convertibles were still substantial.

But many investors are loath to realise those losses while the scent of further stock market weakness is in the air.

In general, investors holding convertibles are better off than those holding equities.

But a consequence of convertible prices holding up relatively well when stock prices sink is that premiums rise sharply. This means that convertibles do not present a buying opportunity, even at lower price levels.

There is no incentive to switch out of equities into convertible stocks for hedging purposes.

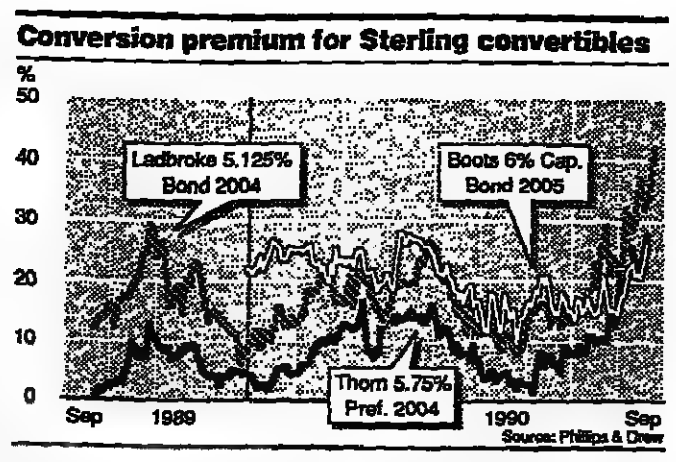
"Investors who wanted to make that move should have done so when the [UK] stock market was 300 points higher," says one trader.

If anything, analysts say the next move by investors will be to sell convertibles to buy equities, once stock prices are perceived to have bottomed out. But investors are unlikely to realise losses on convertible bonds, and switch into equities, until a new base for an equity prices market has been established. If further falls are likely, they will be better protected by holding on to convertibles.

Convertible bond holders may derive some comfort from the support afforded by the bond element of their investment. The current yield gap between UK equities and gilts suggests that a correction is due – either a recovery in the stock market, or a weakening of the gilts market. A holding in the convertible bond market caters to both eventualities.

"Gilts have been remarkably firm, and that is good news for convertibles, especially those with put yields around gilt market yields, because that will act as a floor," says Fergus McDonald, international convertibles analyst at Morgan Stanley International.

Conversion premium for Sterling convertibles



In some cases, though, the focus has shifted to credit quality. "Some convertibles trade more like equities, some more like bonds, and others, where the yields are no longer supported, like junk bonds," one trader said.

As high interest rates and impending recession jeopardise the very survival of some UK companies, yields on some convertibles have reached new highs – Saatchi & Saatchi's convertible bonds are now trading on a yield to put of about 50 per cent, for example.

Among the victims at the end of last week were convertibles for two UK companies, Cookson Group, the UK specialised industrial materials manufacturer, and Polly Peck, the fruit trading and consumer electronics group.

When Cookson's share price lost 40 per cent in one day, the price in the company's £164m of convertible bonds slid from 82 to 62 pence in the pound. The yield to put on the bonds leapt to 27 per cent. (Investors have the right to have the bonds redeemed – a put option – at a price of 134¾ in June 1994.) The current price reflects investors' fears that the company may not be around, or may be unable to pay up, when they exercise their put option – just as the collapse of the company's share price appeared to be prompted by concern that the group would be unable to meet interest payments on its heavy debt load.

The put price did provide some downside protection, but some dealers think that the 20 point fall in the convertible price was not a wholly rational one. "Until two months ago, Cookson was among the top hundred," one trader said. "It is highly geared, but we do not expect the company to go to the wall. Even if the worst does come to the worst, it has decent asset value and break-up potential." Convertible bond holders' claims rank above equity holders'.

As stock prices fall and bond yields become more relevant, the better quality convertibles are increasingly outperforming issues of poor and decreasing credit quality.

Deals like Boot's convertible yielding 12.7 per cent – more than gilts – are well supported by bond yields, while the premium, up 3 per cent to 21.8 per cent, still offers interesting equity kicker.

The smaller French market has generally been limited to top quality companies, so yields there have not generally opened up as wide as some in the UK.

Although any new convertible issues would be attractive to investors, because they would offer much lower premiums, many would not be tempted. Not only have they been badly hurt, they are not even sure the pain is over.

Tracy Corrigan

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Sumitomo Heavy Ind.‡♦	340	1994	4	4⅞	100	Daiwa Europe	4.875
Hokuriku Bk Ltd(f)†♦	200	2000	10	(f)	100	Goldman Sachs Int.	-
Okobank(g)‡♦	100	2000	10	(g)	100	Merrill Lynch Int.	-
Daiwa Kosho Lease‡♦	180	1994	4	4⅞	100	Daiwa Europe	4.875
Nippon Paint Co.‡♦	150	1994	4	4⅞	100	Nikko Secs.	4.875
Mitsui Eng.& Shipbldng.‡	330	1994	4	(5⅛)	100	Nomura Int.	-
Petroleos Mexicanos♦	150	1993	3	11⅞	99.70	SBC	11.749
Banesto Fin.(Cay.Is.)(k)♦	100	(k)	-	(k)	100	Merrill Lynch Int.	-
Mutoh Ind.‡	100	1994	4	(8⅛)	100	New Japan Secs.	-
CANADIAN DOLLARS							
American Express Cr.Corp♦	100	1993	3	11⅛	101.175	Lehman Bros.Int.	11.267
AUSTRALIAN DOLLARS							
ICI Australia Fin.♦	60	1993	3	14⅛	101⅛	Hambros Bk	13.608
NSW Treasury Corp(l)♦	200	2010	20	zero	9⅛	Hambros Bk	12.716
D-MARKS							
Ces'venska Obchodni Bka♦	350	1995	5	10	101	Deutsche Bank	9.738
ASLK-CGER(h)★†♦	50	2001	11	(h)	100	Trinkaus & Burkhardt	-
Prov.of Saskatchewan(p)†♦	400	1997	7	(p)	100	CSFB Effectenbank	-
SWISS FRANCS							
Ishizuka Glass Co.(e)★‡♦	80	1996	-	5¼	100	Credit Suisse	5.250
Kabuto Decom Inc.★‡♦	70	1995	-	6	99½	Citicorp Inv.Bk.	6.094
Shibaura Eng.Works(j)★‡♦	50	1995	-	5¼	100	Nomura Bk (Swiss)	5.250
Houtoku Co.(o)★‡♦	25	1995	-	4¾	100	Nomura Bk (Swiss)	4.750
Chisan Token Co.(d)★‡♦	60	1994	-	4⅞	100	Credit Suisse	4.805
Nippon Kasei Chemical(w)♦	80	1995	-	5¼	100	SBC	5.250
FRENCH FRANCS							
In'finance Cr.Nat.(r)♦	500	1993	2.583	10¼	100¼	CCF	10.081
ECUs							
Credit Local de France(f)♦	80	1995	4½	10¼	100⅞	IBJ Int.	9.960
Banesto Fin.(Cay.Is.)(k)♦	80	(k)	-	(k)	100	Merrill Lynch Int.	-
Credit Local de France(s)♦	100	1993	3	10⅞	100⅞	Credit Lyonnais	10.023

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
LIRE							
World Bank♦	300	1995	5	12⅛	101.45	Ist.Bancario S'Paolo	11.728
SWEDISH KRONOR							
World Bank♦	400	1995	5	13⅞	101⅛	Svenska Int.	13.373
YEN							
Kirin Int.Finance(c)★‡♦	7bn	1995	5	(c)	101⅛	Yamaichi Int.	-
World Bank♦	30bn	1995	5	8⅛	101.40	LTCB Int.	7.900
Swedbank(m)♦	3bn	1993	2¼	(m)	101⅛	LTCB Int.	-
Swedbank(n)♦	1bn	1991	1	(n)	101	LTCB Int.	-
Swedbank(n)♦	1bn	1991	1	(n)	101	LTCB Int.	-
British Airports Fin.(t)†♦	15bn	1998	8¼	(t)	100	Daiwa Europe	-
Skopbank(u)♦	5bn	2000	9¼	(u)	98⅞	NKK Europe	-
LUXEMBOURG FRANCS							
Bacob Fin. NV(a)★‡♦	200	1996	5½	10	101⅞	Banque UCL	9.519
Merrill Lynch & Co(b)★‡♦	1.2bn	1994	4	10	101⅛	BIL	9.464
Electrolux AB★‡♦	500	1995	5	9⅞	101⅛	Kredietbank	9.452
L'Bank Rein-Pfalz Int.(d)★‡♦	300	1995	5½	10	101.36	BGL	9.644
Compagnie Bancaire★‡♦	400	1996	5½	10	102	Banque Paribas (Lux.)	9.469
Banco di Napoli♦	1bn	1997	7	9⅞	101.80	KBL	9.369
Volvo Group★‡♦	1bn	1993	3	10⅛	101⅞	BGL	9.428
ASLK-CGER (fico(v))♦	1bn	1997	7	9⅞	101⅛	Banque UCL	9.546
Cl. Belgium Fin.★‡♦	300	1995	5	10	101.70	Credit Lyonnais	9.557
Commerzbank Int.(v)♦	1bn	1997	7	10	101.95	BCEE	9.805

★Private placement. ‡Convertible. †Floating rate note. ♦Variable rate note. ♦Final terms. [illegible]

CHAIRMAN'S REVIEW

THE past year has witnessed the final collapse of certain of the political dogmas which have bedevilled international relationships since the Second World War. Many optimists initially interpreted the rapidly unfolding events as heralding the advent of a period of unrivalled peace and prosperity. Sombre reflection indicates that the last decade of the twentieth century is likely to be unstable as new political structures emerge in Eastern Europe, Southern Africa and probably in a wide cross-section of the less developed world. Historical religious, cultural and tribal differences have already raised their ugly heads and are likely to play an unwelcome if not critical role in the evolution process.

Economic background

The changed political scenario has emerged as the world economy is drawing to the end of the longest expansion phase in modern economic history. The prolongation of the expansion by co-ordination of international monetary and fiscal policy has been achieved despite a series of deficiencies in the economics of certain countries. These deficiencies render a number of economies, and particularly the key United States economy, extremely vulnerable to any major unpredictable event such as the conflict in the Middle East. Forecasts of soft landings for these economies now seem less likely to be realised. Skilful economic management is going to be required to prevent a major recession without creating a repetition of the serious long-term structural imbalances which were a feature of the 1970s.

A further complicating factor in analysing the likely course of economic trends over the next decade is the extent of the economic disaster which is being disclosed in Russia and its former satellites. The burden of redeveloping East Germany is destined to be assumed by West Germany in a unified German state. The other countries will have to compete with the rest of the developing world for the limited funds which the developed world will make available. This will place enormous pressure on the less developed countries. Many are destined to sink deeper into poverty as they are politically unwilling or technically unable to adapt their legal and financial structures to permit the establishment of a vigorous entrepreneurial society. Such changes are necessary to attract major international investors who will use and develop the competitive resources which each country has to offer. The success stories of the Far East show what can be done and it is clear that this region is likely to dramatically strengthen its position in the world economy over the next decade. Countries which are still arguing over the fundamentals will be unable to compete.

The countries of Southern Africa have a unique opportunity to compete with their Asian cousins if they can sweep aside the rhetoric of the past. By adopting and refining the economic structures of the major economic force in the region, South Africa, they will be amazed at the energy which will be generated by all sections of their communities in a market related economy driven by private initiative. Such a development will rapidly encourage international investors to return to a region which historically has been regarded as highly attractive. In South Africa itself the energies of those who wish to see change in the economy should be directed towards eliminating every last vestige of discrimination whether of race or gender, or against any class of business. What we need is a level economic playing field in which all members of society can strive for a place dependent upon their abilities and receive the appropriate rewards for their efforts. South Africa certainly cannot afford to turn back the clock and experiment with outmoded economic models which have failed dismally in other parts of the world.

In the short term, the South African economy has already moved into a recessionary phase which is likely to be more severe than had been anticipated. For the first time for many years the monetary authorities have been freed from political interference and have been able to pursue a well articulated monetary policy with diligence and vigour. The policy, which unashamedly is aimed at fighting inflation, is hurting some sectors of the economy. Most knowledgeable people recognise that such a policy is a prerequisite for the high level of sound growth which is essential to provide the wealth creation and employment for the future. The monetary policy is backed by a determination to bring the fiscal policy under control. Regrettably it is unlikely that the determination of the fiscal authorities will succeed until the gross inefficiencies of the current political system have been swept aside. Whilst the negotiation of a long-term political dispensation for South Africa is likely to be protracted, there is an urgent need to rationalise second and third tier political structures, albeit on an interim basis, to eliminate inefficiency and ensure a more equitable allocation of resources.

While the debate over interim second and third tier political structures may be slowed by vested interests, there is no doubt that all parties in South Africa should agree on one issue and that is the critical importance of creating employment opportunities for the rapidly growing mass of unemployed. Many of these people are being induced by extreme elements to participate in senseless violence and lawlessness. It is hoped that the government will eliminate most, if not all, the remaining regulatory restraints over the next year. At this stage the elimination of politically induced external restraints could have a far more dramatic impact. While trade sanctions have had a negligible impact, outside agriculture, on the economy, there is no doubt that the disinvestment campaign and financial sanctions have had a major negative impact on new investment and therefore the ability of the economy to create additional wealth and employment. The black population has borne the brunt of the consequences of the sanctions campaign and it must be clear, to even the most insensitive politician, that the suffering within the black community as a consequence of the growing unemployment, violence and lawlessness, cannot be allowed to continue. The sanctions campaign must be halted as soon as possible and it is to be hoped that perceptive foreign governments will act unilaterally if the moderate political groupings fail to recognise the long-term political advantages to themselves of taking the initiative to call off the campaign.

Investment policy for the 1990s

During the past year the group has commenced a major review of its policies to ensure that it can face a decade of change in a proactive manner which can best serve all its stakeholders. It is clear that the major South African groups will face rapidly escalating restraints on their growth by acquisition and pressure for the divestment of major components of their businesses on monopolistic grounds. The array of anti-trust legislation in the United States provides the most comprehensive set of criteria in this regard and due account of this legislative framework has been taken in this review. Account has also been taken of the size of investments in major new mining projects which can only be tackled by large groups which have both the technical and financial resources.

Throughout the 103 years of its operations, Gold Fields has been concerned primarily with mining in South Africa. Despite sundry minor excursions outside mining, the group has always returned to its mainstream business. Your board has once again confirmed that it is in shareholders' interest that Gold Fields should stick to its last. Thus it has been firmly resolved that the group should continue to focus on mining and beneficiation and that precious metals mining in South Africa should remain its core business. In particular the group will continue to seek to discover and develop new mineral resources in preference to expanding by acquisition. Where an acquisition is indicated, due regard will be given to any adverse monopolistic consequences, as well as strategic technical and financial considerations. Where investments are made in non-group companies, these will be limited in extent and of a portfolio nature. Such investments will generally be liquid investments in marketable securities and will not exceed ten per cent of the equity of any company.

In recent years the group has observed a geographic restraint on its activities which have been confined to Southern Africa. In view of the opportunities which exist from time to time to apply the group's technical know-how outside Southern Africa, it has been decided to remove the constraint. This does not imply that the group is about to divert significant scarce financial and technical resources from South Africa. On the contrary, the group will only consider special situations where its technical know-how can give it an entrée to high class mining projects which promise an above average rate of return.

Current operations

For the third successive year the group's gold mines, and indeed the whole South African gold mining industry, have been under acute pressure. Lower gold prices, a relative strong rand/dollar exchange rate and escalating costs have reached the point where a number of mines are fighting for their survival. Rationalisation leading to retrenchment has become the order of the day. In December, notwithstanding the then relative strength of the dollar price of gold, it was decided that Vlakfontein should proceed to closure. Throughout the year Doornfontein, Libanon and Venterspost, the group's marginal gold mines, have had their scale of operations under constant review and have taken steps to curtail operating costs. Fortunately the development of Leeudoorn and now Northam provides an opportunity to place some of the people who are being retrenched elsewhere in the group.

The group's financial fortunes are heavily dependent upon the two Driefontein, Kloof and Deelkraal mines. All four performed below expectations where technical difficulties were exacerbated by a shortage of quality skilled people for much of the year. The industry-wide retrenchment programmes have alleviated the skills shortage and it is to be hoped that the performance of all these mines will improve during the course of the current year. Leeudoorn, which in some respects has been most adversely affected by the skills shortage, will come to production this year and Northam early next year. Both these mines will provide employment for significant numbers of people and should make major contributions to the group's profits in due course.

With the exception of Rooiberg Tin mine, the group's South African coal and base metal companies have continued to flourish with metal prices remaining well above their long-term trends. Gold Fields Namibia's three mines have continued to operate below their potential due to a series of technical difficulties which have been compounded by a not unexpected fractiousness amongst the work force both prior to and post independence. A major effort has been mounted to overcome the technical shortcomings and it is clear that considerable progress has been made.

Outlook

The outlook for the gold price remains uncertain in the short term as worldwide production continues to rise as new mines come to full production. The rate of increase is levelling off and production will probably begin to decline within the next two years. The slow-down in the world economy is likely to impact non-ferrous metal prices in due course and one can expect the current buoyancy to evaporate during the year. In the short term these factors are likely to affect adversely the group's earnings. Nevertheless they are having a major positive impact at most of the operations where there is a far greater focus on financial and technical efficiencies. This trend bodes well for the future.

A major uncertainty at this stage revolves around the behaviour of the group's employees. Although the annual wage negotiations were concluded on all the South African properties without incident, the political uncertainties in South Africa are being mirrored in the mining industry's work force. Several serious incidents have occurred within the industry which have heightened tensions. Thus far the group's employees have avoided outright confrontation despite the exhortation of small groups of activists on certain mines. I can only hope that the combined effect of management's commitment to non-violent law abiding behaviour and of basic employee loyalty will ensure that no serious incident occurs on any of the group's operations. In expressing this hope I am sure that I echo the views of the overwhelming majority of the group's employees and their families.

For a number of years the group has been deeply concerned about the worldwide spread of AIDS which has reached epidemic proportions in Sub-Sahara Africa. Until recently South Africa has been regarded as a relatively low incidence country — a view which was borne out by a major study by the Chamber of Mines amongst gold miners in 1986. Since that study, the group has continued to monitor the situation at the Sexually Transmitted Disease (STD) clinics which are run in conjunction with the group's major hospitals. By late last year it was apparent that a major adverse trend was developing in the HIV incidence. As a result, a study was conducted in the first six months of 1990 with the co-operation of our group gold mine employees. This study indicates a tenfold increase in the HIV incidence since the mining industry's 1986 study. This has occurred despite one of the most intense educational programmes ever mounted on the subject. The benefits of these programmes can be judged in the comparison of HIV incidence at various STD clinics which reflects that the incidence at the group's major clinics is about 42 per cent of the prevailing incidence at clinics in Johannesburg and 27 per cent of the latest available figure for New York City. The results of our study have confirmed the need to redouble our educational activities; to expand our counselling activities to handle an increasing number of employees who are unfortunate enough to test HIV positive; to continue monitoring the spread of the disease; and to keep abreast of the latest research into prophylactics and cures. I must commend our group doctors and nurses for their dedicated and proactive approach to a complex and emotive issue which threatens, on a worldwide basis, to cast a tragic shadow over the final years of the twentieth century.

Returning to a more pleasant subject, the group continues to give a high priority to its exploration effort. Geological assessments of a wide cross-section of mineral resources are being examined with a view to establishing their potential in the current economic environment. As technical resources are released from the Leeudoorn and Northam projects, the group can start to contemplate new developments if they are financially justified. In the meantime field work continues on new targets, some of which are showing interesting possibilities.

Conclusion

Charting the course of a mining group in South Africa under present circumstances places a heavy responsibility upon the directors and senior management of the group companies. I would like to pay a special tribute to all those involved and to their underlying management and employees for their dedication to Gold Fields and their employing companies.

Robin A. Plumbridge
Chairman

6 September 1990

GOLD FIELDS
OF SOUTH AFRICA LIMITED
(Registration No. 05/04181/06)
(Incorporated in the Republic of South Africa)

FINANCIAL TIMES SURVEY

WORLD NUCLEAR INDUSTRIES

Monday September 24 1990

Nuclear power is still a growing component of world electricity supply, exceeding 17 per cent last year. However, the growth of nuclear power has been much slower than predicted when oil and other fossil fuel prices first soared in 1972. **David Fishlock** investigates

Safety fears check growth

Sizewell B

EXECUTIVES of a large *electrical engineering group* tell how, in the directors' bathroom, a Save It sticker on the light switch has an addendum added in the managing director's hand-writing: "and everything else." But saving electricity cannot save us from buying new power generation equipment, as that same chief executive would readily agree.

In the 12 countries of the European Community, for example, electricity demand is expected to rise by almost 25 per cent during the 1990s, in spite of increasing EC attention devoted to cutting it. Growth in many developing countries will be still faster, much less fettered by western worries about possible long-term environmental damage when *their own* short-term imperatives are so pressing.

Nuclear power is a growing component of world electricity supply, exceeding 17 per cent *last year. Nuclear output is* equivalent to 6m barrels of oil a day. But growth of nuclear power is much slower than predicted when the oil price *first soared in 1972, soon fol*lowed by all other fossil fuel prices. It shows no sign yet of responding generally to the demand for more electricity.

One reason is that some countries with substantial nuclear power programmes have carried them out successfully, if slowly, in the last two decades, but are *now pausing*.

France, with 54 plants in service, is the most conspicuous example. It even exports power to five neighbouring countries, including the UK. But others which have completed large nuclear power programmes include Spain, Sweden, Canada and the US. In fact, the latter, which has the world's largest nuclear programme, has put 112 reactors into service, providing over 19 per cent of its electricity. All these countries are weighing what to do next.

Another important reason for the slowdown, however, is *public concern about nuclear* safety. The USSR, which in 1986 experienced the world's worst nuclear accident, wrestles with its worst electricity *shortage*.

When Chernobyl exploded, the USSR was commissioning 4 to 5 gigawatts of nuclear electricity a year. Since Chernobyl *this has slumped to 1GW a* year, while nearly 2GW has been taken out of service. Lithuania – the first Soviet republic to freeze nuclear construction – is reported to be the only one interested in nuclear development. Elsewhere, the Soviets are hostile to all nuclear power projects.

Public worry about nuclear safety since Chernobyl has spilled into western Europe to force moratoriums on more construction in West Germany, *whose big and successful* nuclear programme provides nearly 40 per cent of its electricity.

Italy, has shut down the *reactors which once provided* about 5 per cent of its power. Switzerland, with more than 40 per cent nuclear electricity, plans another referendum this month.

Britain, with its own unique way of persuading the public that nuclear power is safe, through marathon public *inquiries* in which expert claims can be exhaustively questioned and contested, has found an equally unusual reason for a moratorium. In quest *of privatising its electricity* supply, it changed the financial rules in a way that severely disadvantaged nuclear electricity. As a result, nuclear *power is to stay in the public* sector, apparently subsidised by the taxpayer (as domestic coal, Britain's main electricity fuel, has always been).

Britain has some unenviable nuclear problems, legacies of the fact that it pioneered commercial nuclear power but persisted with its own technology *long after the evidence showed* that this was wrong. Britain is making another mistake in widely perceiving nuclear power as inherently costly, *when the sad fact is that it has* been mismanaged by industry and government alike since the fateful Dungeness B decision in the mid-1960s.

*Evidence for the competitive*ness of nuclear power comes from many different sources. Within the EC it can be found in Belgium, France, West Germany and Spain. Elsewhere in Europe, there is strong evidence from Finland, Sweden and Switzerland. Outside of Europe, it can be found in Canada, Japan, Korea and the US.

Sweden, which obtains nearly half its electricity from its 12 nuclear stations, provides perhaps the best test of *comparative power costs*. When Swedish politicians decreed in 1980 that Sweden should complete its nuclear programme by building three more stations, but then get rid of all 12 by 2010, they were confident of finding competitive alternative sources. A decade and 20 official studies later, there is none in sight.

Swedish politicians have an understandable desire to avoid reopening the national nuclear controversy, but are unable to assure industry that power costs will not rise steeply, risking unemployment and lost export markets when nuclear *plants go. Alternatives such as* wind power are uneconomic or else, as with hydro, public opinion forbids development.

Sweden may handicap itself further by charging an "environmental fee" for utilities that emit carbon dioxide, sulphur *dioxide and oxides of nitrogen*. In May parliament approved such fees for heat-generating plant which, if also applied to electricity plant, would nearly double the price of all fossil-fuelled power.

Japan affords a different kind of economic test. *Unham*pered by any need to protect an indigenous source of fuel, it is concerned only to protect its economic ambitions.

More than a quarter of Japan's electricity is nuclear. It has another 13 nuclear plants under construction, which will increase nuclear output by 50 per cent. Its performance in both construction and operation ranks among the world's best. *Japan's government has* no doubt it must soon embark on a new nuclear programme and another 20 power stations.

Canada, source of over 30 per *cent of the world's uranium*, according to the Uranium Institute, expects to restart nuclear construction within 3-5 years, the time it expects it would need to win planning approval.

Ontario Hydro, the world's fifth-largest electricity utility, obtains half its power from nuclear plants of Canadian design. It plans to build a new four-reactor Candu station of 3GW capacity in the 1990s and *10 reactors over the next 25* years.

These are examples from democratic nations which have great experience of nuclear *economics, and have faced* opposition to nuclear power, yet are certain it remains in their own best interest.

Professor Kunihiko Uematsu, director-general of the Nuclear Energy Agency, nuclear arm of the OECD, told the Uranium Institute's symposium in London earlier this month that the key to ensuring that nuclear power fulfils its potential for providing the world with competitive electricity is international *co-operation. About four-fifths* of all nuclear power is generated by OECD nations.

One important example of co-operation has begun *between organisations operat*ing nuclear power stations. The World Association of Nuclear Operators, inspired by the Chernobyl disaster, aims to raise non-OECD nuclear safety to standards prevailing in OECD countries.

Prof Uematsu proposes other collaborations such as joint research and demonstration projects in areas of public worry about safety. The final *disposal of highly radioactive* nuclear wastes might be a suitable subject, he suggests.

International co-operation on radioactive waste problems *and advanced reactor concepts* could have the advantage of spreading costs which are growing too heavy for any organisation to bear alone. This should facilitate the evolution of internationally acceptable standards of licensing for new nuclear plant.

IN THIS SURVEY

Moving forward:
British nuclear operators are learning to co-operate to make progress

Innovations in the nuclear *fuel cycle* business

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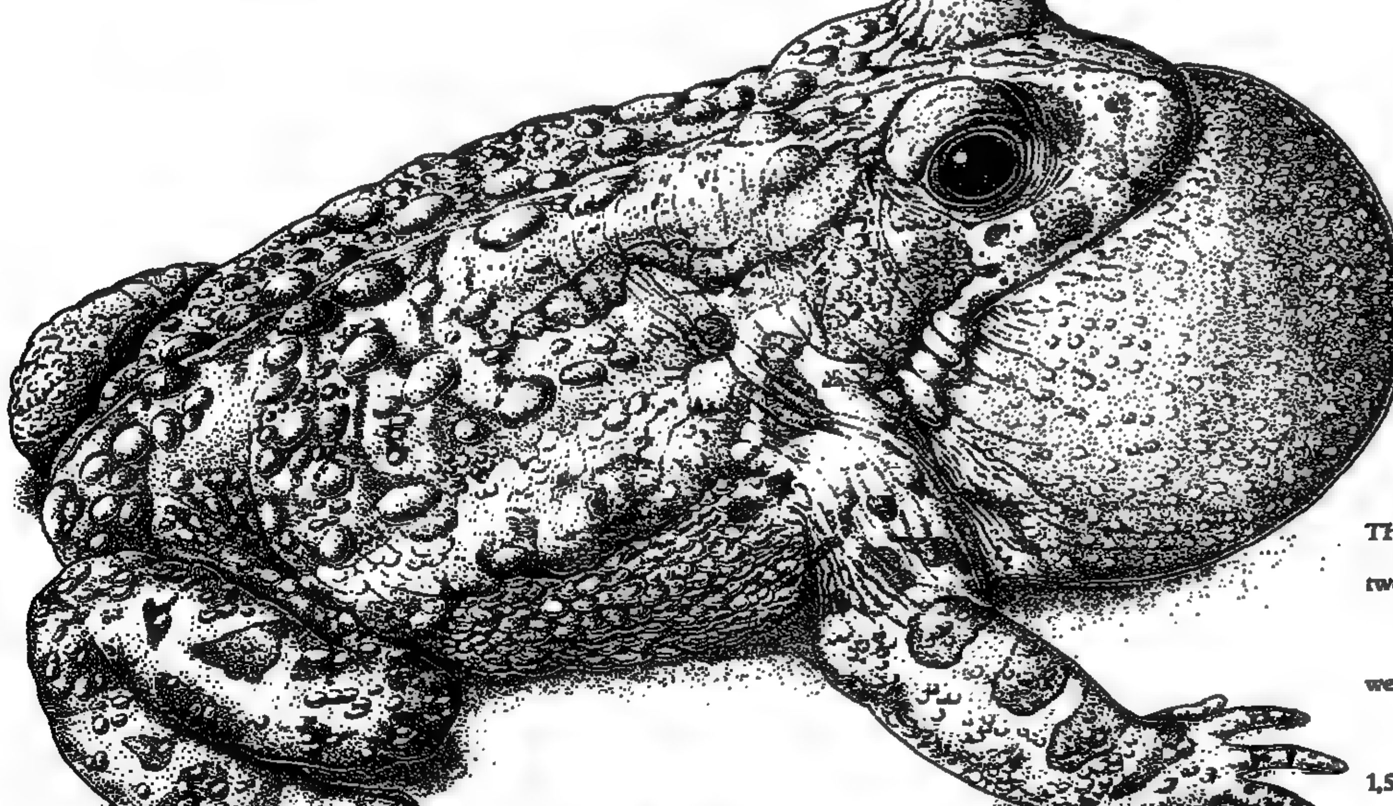

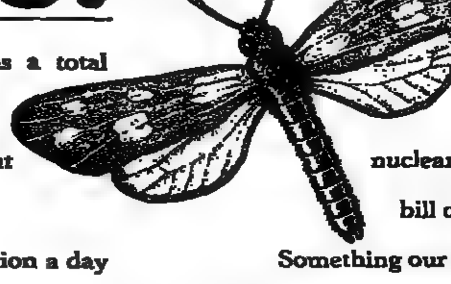

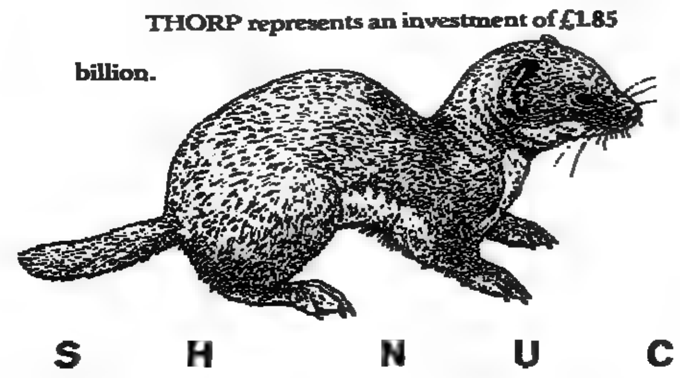

The UK nuclear industry is down but not out. **David Fishlock** reports

Co-operation replaces bickering

THE British nuclear industry suffered a near-deadly blow late last year. The Government cancelled three planned nuclear stations and reorganised electricity supply so radically that Lord Marshall, Central Electricity Generating Board chairman and the internationally acknowledged industry leader for nearly a decade, was out of a job.

All the same, nuclear's antagonists may be premature in pronouncing the industry actually dead, as this year yet another marathon public inquiry has found the industry's proposals safe and, on balance, beneficial; and nuclear companies have signed contracts for another £800m of exports.

Mr Neville Chamberlain is chief executive of British Nuclear Fuels, the company which has won the export contracts for German spent-fuel reprocessing: he sees the Government's approval in principle of the Hinkley C nuclear station earlier this month thus: "It sends the right signals to our customers overseas."

A more daunting problem for the nuclear utility may be its AGRs

For the foreseeable future, UK nuclear electricity and fuel supply will remain in the public sector, following the Government's belated discovery that its privatisation plans failed to include the kind of guarantees enjoyed by private-sector nuclear operators elsewhere in the world. Lord Marshall tried to warn – but failed to convince.

One clear consequence of the government action has been to force survivors to co-operate instead of bickering, as they had done – increasingly bitterly – since Britain enjoyed about 50 per cent of the world's nuclear electricity programme (now down to about 3 per cent.)

In particular, the two big state-owned sectors, Nuclear Electric, the new all-nuclear utility with over £5bn of reactor assets, and its fuel supplier BNFL, now recognise that public argument in an unsympathetic world can be dangerously destructive. For the past 10 months they have been negotiating quietly a new long-term, fixed-price fuel services contract stretching well into the next century, which will be worth something close to £10bn to BNFL at current prices.

The UK moratorium on new reactor construction before 1994 has refocused Nuclear Electric's thinking on extending the life of its Magnox reactors. If the utility can convince the Nuclear Installations Inspectorate that, for a relatively modest extra investment of between £10m and £15m per station, these plants can be run for 35 instead of 30 years, it will be worth an extra £1bn in revenue, says Mr John Collier, chairman and chief executive. A bonus, he adds, given current political concerns, is that it would avoid an extra 60m tonnes of carbon dioxide.

A more daunting problem for the utility may be its advanced gas-cooled reactors (AGRs): five stations totalling more than 6,000MW of potential capacity, but actually generating little more than half the electricity Mr Collier believes they are capable of. As a result, AGR power is appreciably more expensive than Magnox power. For safety reasons, Mr Collier is not allowed to move fuel in and out of the reactors as fast as he wishes, which accounts for a lot of the

Neville Chamberlain: Hinkley C decision sends right signals

deficit, he says. "But I'm determined to get them good – even Dungeness B."

As for Sizewell B, Nuclear Electric's only reactor construction project, Mr Collier has no doubts about the importance of completing it to budget in 1994, if the Government is to be persuaded to let him start more reactors. Nearly one-third of the way through its 72-month construction programme, the project is just ahead of schedule as it enters a tricky period which should see the pressure vessel in place by next summer.

A central part of Nuclear Electric's strategy is to prepare the way for re-entry into reactor-building. Mr Sam Goddard, director responsible for construction and planning, says it proposes to offer the Government a range of carefully considered options.

The baseline will be to restore the programme based on the Sizewell B design, starting with Hinkley C. It is clearly the quickest way to re-enter, but there is the problem of cost.

The world's most expensive pressurised water reactor cannot compete with gas-fired power harnessed by the combined-cycle plants the newly privatised power companies are expected to order.

So, Mr Goddard is weighing alternatives expected to reduce the nuclear costs. All are PWRs, but they fall into two categories. The near-term alternatives are existing PWR designs, such as the latest French N4+ reactor, under construction at Chooz on the border with Belgium, the Combustion Engineering System 80+ and the Mitsubishi reactor. None has yet been licensed in Britain, so Goddard assumes it will be 1996-98 before he could expect to get a construction permit.

One possibility he has just begun to study is to improve the Sizewell B design, using longer fuel, but without jeopardising the safety case.

The longer-term alternatives are the "safer" reactors such as the Westinghouse AP 600 and the Anglo-US safe integral reactor. These systems will first require a demonstration reactor, ruling out commercial construction this century.

Very silly things have been said about the cost of nuclear power in the past year, says Mr Goddard. There is clearly a price to be paid for cleaning up fossil-fuel plant – which is already charged against nuclear units.

He will try to produce a convincing case for his estimates of the value of reactors not emitting pollutants, in the light of the UK's international undertakings.

Nuclear Electric, like other parts of the electricity supply industry which are not being nationalised, is under strict orders from the Government to keep out of the news. But when privatisation is completed next year, there will be a case for a new national debate about the rightful place of nuclear power in UK energy supply, suggests Mr J.C.C. Stewart, chairman of the British Nuclear Forum, the industry's trade association. He wants to see this debate bring all the rigour of the four exhaustive public inquiries into nuclear safety, to bear on the wider issues of nuclear economics.

The public generally – including the City – sees it as an expensive indulgence in high technology. The nuclear industry believes there is already ample evidence overseas that nuclear energy is a fully commercial and highly competitive investment in mature technology, says Mr Stewart. He believes the private sector will also be clamouring for permission to build reactors.

Casualty of privatisation

NUCLEAR POWER, once heralded as ushering in an era of cheap electricity, has been one of the main casualties of the UK electricity privatisation programme.

The Government was forced into a humiliating retreat last year when it dropped plans to privatise any of the nuclear power stations in the UK.

Ministers had little choice, since the financial analysis which preceded electricity privatisation had resulted in a big escalation of cost estimates for nuclear power.

In 1988, the Central Electricity Generating Board told the public inquiry into its proposal to build a new pressurised water reactor station at Hinkley in Somerset that the station's output would be less than from a coal-fired station.

Once private sector financial analysis had been applied to nuclear power, however, the industry admitted that the lifetime cost of PWR generation would be 6.25p a unit (kilowatt/hour), compared to 2p-3p for a combined cycle gas turbine plant and 3p-4p for a new large coal station.

Several factors lay behind these increases: inadequate provisions for the cost of reprocessing nuclear waste and decommissioning nuclear stations; unduly low rates of return used to appraise nuclear stations; excessively long 40-year depreciation periods used in calculating nuclear costs; and the failure to include interest costs.

The House of Commons Energy Committee, which published a scathing report on the privatisation fiasco earlier this year, believes that the UK industry has been subject to less rigorous financial appraisal than some of its counterparts overseas.

But it remains an open question whether any state-owned nuclear stations could survive the sort of examination demanded by privatisation.

David Thomas

NUCLEAR FUEL CYCLE

Enrichment process passes test of time

Gas centrifuges for uranium enrichment in Urenco's latest factory at Almelo, Netherlands

URENCO, the Anglo-German-Dutch uranium enrichment company, has reported that gas centrifuges designed in the 1960s to run for 10 years have run non-stop in both the Netherlands and Britain for 14 years. To make a machine run continuously at supersonic speeds without maintenance for a decade and longer is a remarkable achievement.

The gas centrifuge is one example of a nuclear technology in which Europe has collaborated to score a singular success, by displacing the US-invented gas diffusion process as the cheapest way of enriching uranium for nuclear fuel.

The two decades since the signing of the tripartite Treaty of Almelo, which gave birth to Urenco, have witnessed a steep drop in the rate at which nuclear power was expected to expand. Nevertheless, its growth has sufficed to help Urenco establish itself as an international nuclear business with an order book for 1990 and beyond exceeding $3bn, and embracing Brazil, Sweden, Switzerland and the US, as well as its partner-nations.

Investment plans call for 2,700 tonnes of enrichment capacity a year by the end of 1990, all authorised against long-term supply contracts and amortised over 10 years.

The collaboration has melded three national programmes into the single design of gas centrifuge now being installed in all three Urenco factories. An uprated version of this machine will be installed from the end of the year – the machine Urenco also plans for its first US plant, in partnership with US utilities. "We still believe that for the next decade our centrifuge will be the most economic way of producing enrichment", says Mr George Inglis, Urenco's managing director.

How plutonium may reduce enrichment demand (%)

Country	1990	1995	2000
Germany	8.3	13.7	14.8
Switzerland	5.2	21.4	17.5
France	2.3	4.1	7.1
Japan	0.3	2.0	4.4

Source: Urenco estimates

The US venture, in partnership with a new energy consortium called Louisiana Energy Services, is budgeting "tens of millions of dollars" to prepare the safety and engineering case for what it hopes will be the first US licence for an enrichment plant, near Homer, Louisiana.

It expects to submit its case for a tornado-proof plant to the Nuclear Regulatory Commission in January and hopes for approval within two years. If the partners then decide to proceed, the plant could be producing enrichment by the end of 1995, Mr Inglis says.

Factors influencing the decision could include US Government policy on enrichment, which is still evolving. Another is the USSR's plans for using its own gas centrifuge enrichment capacity – deriving from the same basic inventions as Urenco's centrifuges – to expand its exports of enrichment to the west at competitive prices. A third factor is the growing use of plutonium instead of uranium to enrich nuclear fuel.

Recycling of fissile plutonium separated from spent nuclear fuel, as enriched fuel for thermal reactors, was demonstrated in an Italian reactor in the 1960s. Typically, 70 per cent of the plutonium recovered by reprocessing is fissile. Plutonium-enriched fuel has been more difficult to develop for several reasons, such as the toxicity of plutonium, which makes fuel more expensive to fabricate.

Several nations have persevered with trials of mixed-oxide (MOX) fuels of uranium and plutonium oxides in light water reactors, and have shown that fissile plutonium can be recycled safely and reliably as an alternative to uranium enrichment.

Europe uses MOX fuel equivalent to a charge of one big reactor, or about 120 tonnes of separative work a year.

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ADVANCED REACTORS

The high cost of safety

PRESENT commercial designs of nuclear reactor are unnecessarily complex and costly, it is argued by the industry, because the designers have been obliged to add on so many "afterthoughts" to accommodate, above all, developing perceptions of nuclear safety.

Britain, for example, has achieved the unenviable reputation of designing the world's most expensive pressurised water reactor for Sizewell B, in order to placate critics of PWR safety.

All leading reactor vendors have therefore accepted the challenge of designing an even-safer-yet-cheaper system. The two goals are not necessarily incompatible because ways of making reactors intrinsically safer – if not inherently proof against a serious accident – have been proposed.

The Swedes started the fashion with the former ASEA-Atom's Pius (process inherent ultimate safety) reactor concept, although a government moratorium on further reactor construction has prevented any demonstration. The plan is that the 500MW Pius reactor, shrouded in its pressure vessel of prestressed concrete, would shut itself down and cool automatically in an accident. Potential customers have raised the point that it might, in fact, shut down too readily to be a reliable power supply.

In the US, Westinghouse Electric has its AP600 advanced PWR, which embodies such passive safety features as a chimney that helps cool the reactor containment by convection, and greater protection against a loss-of-coolant accident.

General Electric is working on its advanced BWR, using an international team drawn from BWR vendors in Europe, Japan and the US. The version which corresponds to AP600 is its small/simplified BWR of 600MW which includes such passive emergency response features as a suppression pool to absorb blow-down energy, a gravity-fed cooling pond to flood the reactor, and an isolation condenser pool to remove radioactive decay heat to atmosphere.

The US Department of Energy is helping to fund further development of these two light water reactors, following a review last year. The review rejected an application for funding from proponents of the Pius reactor, and from backers of an Anglo-US PWR project called the safe integral reactor (Sir).

Britain has designed the world's most expensive pressurised water reactor for Sizewell B

Sir is a concept devised by four parties in concert: Rolls-Royce, whose associated nuclear company builds the Royal Navy's reactors; Combustion Engineering and Stone and Webster in the US; and the UK Atomic Energy Authority. Sir's central safety feature is that the entire primary circuit is contained within a single steel vessel whose essential safety characteristics have been endorsed by the Sizewell public inquiry. The concept has recently been uprated from 320MW to 400MW. The UK AEA has proposed that a demonstration Sir be built at its Winfrith site in Dorset.

The future of Sir may now rest with recent industrial developments bringing Combustion Engineering together with Asea Brown Boveri (ABB). ABB Atom has access to Combustion Engineering's latest PWR technology, its own BWR and high-temperature gas-cooled reactor (HTGR), Sweden's Pius, and Sir. Mr Lennart Fogelstrom, Sweden's nuclear industry leader, is advising the ABB board on how this nuclear smorgasbord might be rationalised.

Two further advanced thermal nuclear systems are being funded by the US Energy Department and have been evaluated this year on behalf of US utilities by the Electric Power Research Institute (EPRI). They are General Atomic's HTGR and GE's liquid metal reactor. The EPRI study concludes that both should continue to be developed.

The nuclear physics and chemistry of the fast reactor has been demonstrated convincingly, notably by France and Britain. The reactor is docile and easily controlled. Less easily controlled is the cost of designing a system requiring, for safety reasons, an extra heat-transfer system between its molten metal coolant and the steam circuit.

All large fast reactors have suffered problems at this complex and costly interface, suggesting that a dependable commercial system is likely to be still more expensive to engineer than a thermal reactor. The uranium price required to make the fast reactor competitive still tends to recede.

Britain, unable to get an economic price for running its 250MW prototype fast reactor at Dounreay in north Scotland, plans to close it in 1993. Even the French are having doubts about the performance of Superphenix, their 1,200MW collaboration with West Germany, Italy and Benelux. All plans to proceed with more fast reactors have been shelved. Britain's Energy Department has put the commercial fast reactor no nearer than 2020.

A fusion reactor is furthest away, for it has not yet reached the experimental stage of the original fission "pile" of 1942. Controlled thermonuclear fusion has proved one of mankind's most difficult technical goals, and enough is now known about the tokamak, as the favoured approach, to suggest that it will be a costly and troublesome technology to implement and maintain.

What drives the research is the idea that fusion will run on almost inexhaustible fuels, and will involve lesser radioactivity problems than fission reactors. If realised, it could insulate its inventors from all the geopolitical and most environmental problems associated with present-day fuels.

This view has found unexpectedly strong support from an independent team of technical analysts asked by the European Commission to examine its £300m per year fusion research programme. The team, led by Professor Umberto Colombo, chairman of ENEA, the Italian energy research commission, wants the European Community to keep fusion at high priority in its research strategy, even though it reckons commercial fusion reactors to be 50 years away.

David Fishlock

WORLD NUCLEAR INDUSTRIES 3

The nuclear fuel service industry sectors, from source through to reprocessing and waste disposal, are explored by **David Fishlock**

Continued from page 2

The table on Page 2 gives Urenco's estimates of how MOX fuel may penetrate some nuclear markets and displace uranium enrichment.

West Germany, one of Urenco's partner-states, is the driving force behind recycled plutonium. Peter Schmiedel, general manager for nuclear fuel projects with Siemens, says that his factory at Hanau had so far turned 3.7 tonnes of fissile plutonium into 70,000 MOX fuel rods. During the 1990s he expects to recycle a further 24 tonnes of plutonium – conserving a total of 5,000 tonnes of uranium and the need for 4,000 tonnes of separative work.

Ten German reactors have so far been licensed to use MOX fuel and a further eight have applied for a licence. Schmiedel's factory is being expanded from 40 tonnes to 120 tonnes of MOX fuel a year.

France, with Europe's biggest inventory of reactors, is making MOX fuel rods through Fragema, with help from Belgium's Belgonucléaire. The first were loaded into *Electricité de France*'s St Laurent B1 PWR in 1987, and another three EdF reactors have since received MOX. Four more will be loaded by 1992.

France is building a new MOX fuel factory at Marcoule on the Rhone. Owned by Cogema and Framatome, it is scheduled to produce its first fuel rods in three years' time. France has already secured orders for MOX fuel from two German utilities.

Britain, which has made MOX fuel for its prototype fast reactor since the early 1970s, is now building a demonstration plant at Sellafield for a new manufacturing route called the "short binderless route", as a joint venture between British Nuclear Fuels and the UK Atomic Energy Authority.

BNFL plans to have a commercial MOX factory based on this new process operating by the late 1990s. Its advantages, the company says, include the ability to deal with "old" plutonium, long in store, which has accumulated neutron-absorbing americium-241 from transmutation of plutonium-241. The two partners are talking of a £50m investment in a MOX factory making between 50 and 100 tonnes a year, in which AEA Technology, the UK AEA's commercial arm, might take a 10 per cent stake.

New answers as waste material piles up

THE Swedish government led the way a decade ago when it insisted that the nuclear industry must also make full provision for radioactive waste disposal, before it would approve the three more nuclear stations which would complete Sweden's first nuclear power programme. This meant disposal of everything except the most highly active waste associated with 12 nuclear stations and their fuel services, after their scheduled shutdown by the year 2010.

As a result, the Swedish Nuclear Fuel and Waste Management Company (SKB) has a sub-sea repository in operation at Forsmark, north of Stockholm, designed to contain all radwastes, including the debris when the nuclear facilities are eventually dismantled.

The Swedish utilities pay SKB an annual fee calculated to cover all costs associated with the end of the fuel cycle up to about 2050. Meanwhile, the high-level wastes are being stored in facilities designed for a life of up to 40 years, while SKB is still researching and designing a separate repository. It has just begun to excavate a new "hot laboratory" deep in granite in southern Sweden, near the national spent-fuel store.

Each nation, like Sweden, has unique solutions

The US, with nearly ten times as many nuclear plants operating as Sweden and a huge legacy of radwaste from 50 years of nuclear weapon industry activities, has taken few long-term decisions, mainly because it cannot agree whether to build a national repository or order each nuclear-using state to construct its own.

In the Eastern bloc, there is a still bigger problem. The west may be obliged to help manage this

The US Government has estimated, however, that its Department of Energy sites alone present a radwaste problem that will cost $30bn to clean up. In addition, it must deal with the growing inventory of spent fuel accumulating in stores at every nuclear station since it prohibited reprocessing in 1977.

In the Eastern bloc, there is a still bigger radwaste problem. The west may be obliged to help manage this, if only to prevent the consequences spilling across national boundaries.

Western Europe is well equipped to assist both superpowers with their radwaste problems. Each nation, like Sweden, has been obliged to respond to strong domestic pressure for action, and as a result has unique solutions.

The French, for example, with Europe's biggest nuclear power programme, focused strongly on perfecting the tricky technology of vitrifying highly radioactive reprocessing effluent, some of which it has licensed to Britain.

In the UK, a series of mishaps at the Sellafield reprocessing factory which threatened the future of one of the country's most successful nuclear activities – contract spent fuel reprocessing for other countries – forced the industry to face up to a number of radwaste problems.

During the 1980s British Nuclear Fuels, backed by the UK Atomic Energy Authority, researched, designed and installed radwaste management facilities totalling more than £1.8bn to reduce the routine emissions as well as the risk of leaks from Sellafield.

BNFL is still spending heavily, and effluent and waste treatment facilities costing another £370m are planned for the early 1990s.

Latest to enter service, this summer, are plants which immobilise two specific radwastes. The Windscale vitrification plant is a £240m investment in robotic glassmaking to solidify highly active effluent as glass ingots, for eventual disposal deep underground, either in Britain or in the countries of its other reprocessing customers.

Another £240m has been spent on a remotely operated facility, encapsulation plant No.1 (EP-1), which packages corroded magnesium alloy stripped from spent uranium fuel and contaminated with plutonium, in concrete in stainless steel drums, again for eventual burial. Another £55m has been spent on the associated beta-gamma store where these drums will stay until the Nirex national deep repository is ready early next century.

Both these plants are remarkable engineering achievements, run "cold" for many months before they handled radwaste to make sure they really are reliable and self-repairing, and can rid themselves efficiently of any engineering parts their robots may replace during their lifetime. As Mr Neville Chamberlain, BNFL's chief executive, points out, failure would bring Sellafield's reprocessing to a halt, for the company is installing no new capacity for storing either liquid effluent or Magnox swarf.

Mr Chamberlain believes that the technology BNFL has researched and designed for such plants is just what the US government needs to accelerate its own clean-up programme. He says his many visitors from US government and industry to Sellafield have been impressed.

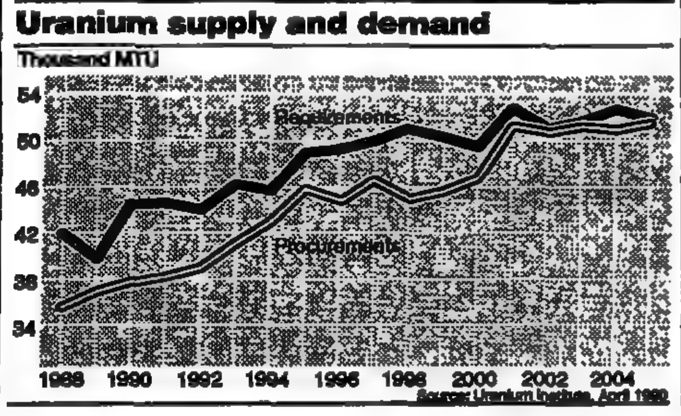
As UK demand for fuel services will not grow rapidly in the 1990s, the company has made two important commercial moves to internationalise its operations. One is to set up a subsidiary, International Nuclear Fuels Ltd, with separate headquarters at Risley, as a vehicle for organisations overseas "to get closer to us", Chamberlain says.

Another big BNFL goal is to bid for US contracts

Thus they can discuss such schemes as mergers, joint ventures and equity participation with civil-sector customers, unhampered by BNFL's defence activities for the UK Government. The French helped pioneer the idea with its Eurodif joint venture between utilities in uranium enrichment in the early 1970s, and more recently in its proposal to German utilities for shared investment in a French-managed reprocessing plant.

The second commercial move was to set up a US subsidiary, the Washington-based BNFL Inc. Its first project is the joint venture with Louisiana Energy Services in planning a joint enrichment venture in Louisiana. But another big goal is to bid for US radwaste management contracts in collaboration with US engineering companies, using Sellafield technology.

Uranium supply and demand



Reprocessing brings its own rewards

RARELY CAN an industry have won so big an overseas order and gained so little publicity for it, as British Nuclear Fuels this summer when it signed a series of long-term contracts for reprocessing spent fuel from seven German reactors.

The work, to be done beyond 2002, comes to nearly 1,600 tonnes, worth £800m at today's prices. The small amount of attention it did receive in Britain was focused mostly on alleged risks of making Britain a bigger "nuclear dustbin", although the contracts require the German utilities to take back almost all the radioactivity.

Britain is scoring a considerable commercial success in the area of reprocessing. Only the French, unhampered by a protracted public inquiry system, can claim to be ahead of Britain.

From French technical progress Britain can take considerable comfort that its own ambitious schemes will work, for the two nations have simultaneously collaborated in the international market in spent nuclear fuel as well as competing in it.

Cogema in France reported to the Uranium Institute this month that its most advanced reprocessing facility UP3 at La Hague came on-stream commercially this summer, after successfully completing a pilot run of 100 tonnes of fuel. UP3 embodies such advances as zirconium vessels for dissolving the ceramic fuel.

The scale of the project can be gauged from the fact that more than 400 construction companies were engaged, and that the peak workforce exceeded 7,000.

UP3 is designed to treat 800 tonnes of spent fuel a year, and recover 8 tonnes of plutonium for recycling as mixed oxide (MOX) fuel, made in a plant Cogema plans to bring on-stream in 1993.

Britain's counterpart, the thermal oxide reprocessing plant (Thorp) at Sellafield, is scheduled for completion in another 18 months. As with UP3, Thorp's capacity for the first decade of operation has already been sold.

Estimated UK fuel cycle costs (pence per unit)

Stage	Magnox	AGR	PWR
Uranium	0.2	0.2	0.15
Hex conversion and enrichment		0.1	0.1
Fuel fabrication	0.3	0.2	0.1
Reprocess and waste management	1.0	0.6	0.15
TOTAL	1.5	1.1	0.5

The new German business – shared with the French – is for the second decade, when reprocessing costs are expected to reflect the fact that the plants have been amortised.

Mr Neville Chamberlain, BNFL's chief executive, is confident of keeping Thorp close to schedule and a budget of £1.85bn. Some associated facilities such as fuel receipt and storage are already in service, and the Windscale vitrification plant for treating Thorp's highly active liquid effluent, which uses French core technology, came on-stream this summer.

Mr Chamberlain believes that before the end of the decade BNFL will be returning highly active wastes to its overseas customers, who account for two-thirds of Thorp's capacity in the 1990s.

Only the French can claim to be ahead of Britain

To underpin this long-term nuclear business, BNFL has made a prodigious commitment to radioactive waste management at Sellafield totalling more than £1.8bn. As Mr Chamberlain puts it, "None of these improvements provide benefit to the customer, but of course he felt the consequent price increase".

In the late 1980s the company was obliged to add hundreds of millions of pounds in provisions for fuel already long spent – and even reprocessed. Customers on cost-plus contracts became worried, culminating in the public fallout between BNFL and its biggest client, the former Central Electricity Generating Board, last year.

The table provides the basis for BNFL's latest prices including the long-term, fixed-price contracts for fuel services it is close to signing with Nuclear Electric and Scottish Nuclear. Under their terms, BNFL will be shouldering all risks associated with building and operating fuel facilities and subsequently decommissioning them – "all the managerial, technical and business risks".

The only circumstances in which prices are allowed to change are in meeting newly imposed safety or regulatory requirements, costs of which are to be shared between customer, contractor and government.

Prospects for further reprocessing business look promising, not least because of the rate at which some commercial reactors – notably in the Far East – are consuming fuel by running at high load factors. A new prospect has also opened in Eastern Europe, where state power companies are no longer obliged to return their spent fuel to the USSR.

The USSR is apparently reluctant to take some kinds of spent fuel. This may well be faulty fuel – leaking cans, for instance. To cater for what may be a substantial international business in "difficult" fuels – fuel from research reactors as well as damaged fuel – AEA Technology, the commercial arm of the UK Atomic Energy Authority, and BNFL have been co-operating in marketing a commercial scheme to make use of the demonstration fast reactor reprocessing plant at Dounreay.

It looks like good business and could give the plant a commercial future beyond the scheduled shutdown date of 1997, says Brian Eyre, AEA Technology's chief executive.

Governments find that they are pulled in different directions by the issues surrounding nuclear power

The pressures on nuclear nations around the world

IN MARCH, the US Nuclear Regulatory Commission approved the generation of power from one of the most bitterly contested civil nuclear projects in the US.

The Seabrook plant in New Hampshire, now in the process of starting up, is 11 years behind schedule; costs have risen from $973m in 1972 to $6.45bn.

The station was fiercely opposed by politicians in neighbouring Massachusetts, including Governor Michael Dukakis and Senator Edward Kennedy, and attracted numerous protest rallies.

It also led to the first bankruptcy since the 1930s of an investor-owned electric power company, the Public Service Company of New Hampshire. In short, it became a cause celèbre for the pro- and anti-nuclear lobbies in the US.

But the go-ahead for Seabrook does not necessarily signal a revival in the US nuclear industry. The political and financial difficulties generated by the scheme help to show why US utilities remain wary of the nuclear route.

That said, other forces – environmental concerns, a new generation of nuclear designs and the Middle East crisis – could mean that by the mid-1990s, nuclear power may become slightly more acceptable politically. Proponents of the industry hope it may even see a handful of US orders around that time.

The US has more nuclear power stations than any other country – 112 have operating licences – and last year they generated just over 19 per cent of the nation's electricity.

But virtually no new nuclear plants are in the pipeline and all the plants ordered since the mid-1970s – more than 100 – have been cancelled.

Though the cancellations were due partly to changes in energy supply and demand – many coal-fired stations were also scrapped – they coincided with growing popular revulsion against nuclear power, because of worries about safety and waste disposal. These concerns were intensified by the accident at the Three Mile Island plant in March 1979 and later by the the Chernobyl disaster in the Soviet Union.

In addition, the speed at which plants were built in the early 1970s raised questions over the quality of design and engineering and huge cost overruns.

However, advocates of nuclear power believe the industry might get a second chance in the 1990s.

UNITED STATES
All the plants ordered since the mid-1970s have been cancelled

The US is going to need more power plant. Lack of construction over the past few years, when electricity demand has been growing substantially, means the supply/demand balance is getting precarious in some areas.

Most new power stations are fuelled by gas and oil, but a prolonged rise in crude prices could make this a costly choice, and increase US dependence on imported fuel.

Coal is an obvious alternative, given the plentiful US supplies, but it has environmental complications: there is growing concern over acid rain and global warming associated with fossil fuels, while new US clean air legislation could push up costs.

The nuclear industry believes that all this is helping its cause, along with the improved designs of reactors, which it says will be simpler, safer and cheaper.

Both General Electric and Westinghouse are seeking generic approval for their designs from the Nuclear Regulatory Commission by the middle of this decade.

The industry also wants a simplified licensing system. This would involve just one permit; currently, one is needed to build the plant and another to operate it.

But even if the designs are better, nuclear still has to prove it can compete on cost with rival power sources. That requires, among other things, showing that plants can be built in a reasonable time. The industry insists this should not be a problem, since new designs will be standardised models, rather than the custom-designed varieties of the 1970s, which produced endless construction problems.

Waste is another issue. The Federal Government is making slow progress towards the permanent disposal site it is supposed to be opening early next century. Efforts to carry out site tests in Nevada have been stymied by a lawsuit from the State Government.

Even if these obstacles were overcome, the nuclear industry would still require a degree of political support.

One of the thorniest political patches is at the State level. Nuclear proponents claim that State public utility commissions have frequently not allowed companies to reclaim large amounts of construction costs from consumers, and that this has made them wary of committing capital funds.

Perhaps even more serious are the rows over emergency evacuation procedures. It was a dispute of this type which held up Seabrook for so long, and a similar battle was the death of the Shoreham plant on Long Island, New York.

Construction of Shoreham began in 1973 and was completed in 1985. But it could not begin operating because New York State and the local county would not take part in emergency planning. By the time the wrangling ended in 1989, the utility and New York State had struck a deal to kill the plant: the state acquired it for a nominal $1 and the utility was allowed to raise its rates.

The move was attacked at the time by the Federal Government as an "Alice-in-Wonderland decision totally contrary to calls for action on global warming and concerns about declining utility reserve margins in the north-east US."

That may be so, but it does underline the enormous political battle that the nuclear industry still has to fight.

For even if the public can be convinced that the dangers inherent in nuclear power are preferable to those of the greenhouse effect, the cry will still go up: "Not in my back yard!"

Martin Dickson

THE JAPANESE Government is striving for a nuclear consensus, but well-organised opposition to an increasingly ambitious plant construction programme has meant that this will not come cheap.

Japan's energy debate, which will determine prospects for the nuclear industry, has been clouded by increasing concern about greenhouse gases, and the inability of the Ministry of International Trade and Industry (Miti) and the Environment Agency to agree on an approriate level for carbon dioxideemissions.

Aomori, the poorest prefecture on Japan's four main islands, has become a focus for the nuclear debate, having been selected as a site for nuclear facilities that other areas do not want. Work has already begun on an uranium enrichment plant, and is expected to begin soon on Japan's first recycling facility and waste repository.

Miti has a nuclear fund intended to create consensus by granting Y18bn to towns around nuclear facilities, while a Y3bn public relations centre funded by construction and nuclear engineering companies is being built near the Aomori site.

If acceptance is not achieved in Aomori, a review of national nuclear plans is likely. A recent Miti study of energy needs that concluded nuclear plants must increase from 38 to 78 over the next 20 years if the country is to meet expected energy demand and stabilise carbon dioxide emissions.

Miti expects that energy consumption will increase by about 35 per cent in the next 20 years, and in order to reduce carbon dioxide emissions, the share of non-fossil fuel energy should increase from the 1988 level of 15 per cent to 26.5 per cent by 2010.

The Environment Agency wants to stabilise carbon dioxide emissions at the present level by the year 2000, but Miti argues that an attempt to impose a limit now would hinder planned economic growth, and that an annual 1.3 per cent increase in emissions is necessary until the end of the decade.

A senior Miti official says that the ministry and industry have four priorities in developing nuclear power: improving safety, refining the handling of waste disposal, winning general public acceptance, and getting approval from residents near planned facilities.

"We will encourage enterprises and business to select these areas for new factories and shops, and we will build more public facilities like hospitals and schools," he says.

Nuclear power accounts for about 30 per cent of electricity generated and 10 per cent of total energy used in Japan. The plan for 2010 is that nuclear plants provide 43 per cent of the electricity and 16.7 of total energy needs.

JAPAN
Nuclear power accounts for about 30% of electricity generated

The Miti official says that, before Chernobyl, the industry was confident that long-term construction targets could be met, but "after Chernobyl, the movement [against] has become much stronger."

Aomori's popularity as a nuclear site dates back to a pre-Chernobyl pledge by former prime minister Mr Yasuhiro Nakasone to make the northern coastal region Japan's "nuclear peninsula". That promise is being partly kept, with plans to build two plants and by harbouring Japan's only nuclear-powered vessel, the Mutsu.

The vessel's maiden voyage, in 1974, was a disaster. Within minutes of the first power-up test, a radiation leak was detected and the voyage was abandoned, amid damning publicity.

Ports around the country refused to accept the Mutsu, until the Aomori fishing village of Sekinehama agreed after receiving considerable compensation. The vessel has its own port, while the local fishing co-operative received a new port and clubhouse and received Y1.7bn in handouts.

Other communities have not been as accommodating. Fishermen opposed to the Aomori spent-fuel recycling facility have joined the anti-nuclear lecture circuit, while local elections are won and lost on the issue, particularly in areas close to proposed plants.

In response, the country's nine power companies, which each monopolise a given area, have targeted housewives and the young for their PR campaign.

Anti-nuclear sentiment has been strengthened by the Government's campaign to highlight the misery inflicted by the atomic bombing of Hiroshima and Nagasaki. The Government has also sought publicity from an agreement to use radiation-treatment expertise gained from those tragic experiences to treat victims of the Chernobyl accident.

A foreign nuclear expert suggests that Japanese officials and companies must understand that not everybody can be convinced to accept the role of nuclear power – that a consensus will never be reached on such a divisive issue.

But the Government is confident that the public acceptance campaign will eventually work, though the poor handling of announcements about faults at several nuclear plants has prompted some Japanese to suspect that many secrets are kept from them.

The Government has also raised suspicions in its funding of "*public acceptance*". In the 1990 budget, the Government had included Y254.8bn for "the promotion of nuclear power development" in a much-publicised Y452bn *contribution* to "environmental protection".

Robert Thomson

FRANCE'S nuclear planners are feeling quietly relieved.

The increase in oil prices caused by the Gulf crisis has had a relatively gentle impact on the French economy, allowing Electricité de France (EdF), the state-owned electricity supply monopoly, to feel vindicated.

Only recently, EdF was widely suspected of having saddled France with a surplus of nuclear power, the legacy of an ambitious nuclear reactor building programme which even EdF officials admit had been based on over optimistic economic growth forecasts.

This has had mixed effects. On the one hand, it has made EdF Europe's largest electricity exporter and allowed French industry to benefit from the lowest electricity prices of any European Community member state, except Denmark.

At the same time, it has provoked the suspicion of other European utilities, who are wary of having to compete against EdF if the EC should ever succeed in scaling barriers to free cross-border electricity sales.

EdF's efforts to offer special deals to big industrial customers to mop up some of that cheap power have already attracted the attention of the European Commission's competition authorities, worried that EdF was trying to unload its surplus at lower than commercial rates.

Yet if it had not been for France's nearly 20-year policy of building up an independent nuclear-based source of energy, electricty prices might easily have tripled in the latest crisis, estimates the Commissariat à l'Energie Atomique (CEA).

This is not to say that France's nuclear energy consensus had been under any real threat before Iraq's annexation of Kuwait.

Governments of right and left have shown unswerving commitment to nuclear power since the 1973 oil shock, when three-quarters of France's energy needs were imported.

The result is that France is now the world's second largest producer of nuclear electricity after the US, and has the highest dependence on nuclear power in the world.

France's installed capacity of 53,000MW compares with 97,000MW in the US, while between 75-80 per cent of French electricity comes from nuclear power, according to EdF.

The 56 reactors operating or under construction provide around one third of France's overall energy consumption, with another 30 per cent from oil, 15 per cent from coal, 12 per cent from gas and 8 per cent from hydro-electric sources.

FRANCE
Governments of right and left have been committed to nuclear power

"At this level, we think we have got just about the right balance. We are not thinking of any major expansion in the number of reactors in the future," says Mr Remy Carle, managing director of EdF's contruction division.

Mr Carle estimates that France will be supplying half its own energy needs within "a few years."

Mr Bernard Tinturier, director of strategy at the CEA, adds: "To my eyes, there is no question of re-launching. . . a new electro-nuclear re-equipment plan like that of 1973."

If the oil price sticks at around $30 per barrel for the foreseeable future, Mr Tinturier reckons that France would need to start construction of four new reactors between now and the end of the decade; barely faster than its pre-crisis plans.

Further ahead, EdF reckons that the current generation of reactors will need replacing between 2010-30, though just what kind of technology will replace them is the subject of intense political debate.

EdF and the CEA are attracted by fast breeder reactors, said to be able to extract 60 times more power from a given weight of uranium than the present generation of nuclear plant.

However, EdF's attempts to get a fast breeder to work have been fraught with difficulties.

It has built the world's first industrial scale fast breeder, known as Super-Phenix, at Creys-Malville, south-east France, in a joint venture with West Germany and Italy. However, it is running over budget and has yet to produce power at a consistent and economic rate.

The Government has shown signs that its patience is running thin, and EdF officials privately fear that the Super-Phenix reactor could one day be scrapped as an electoral gesture to France's small but growing environmental lobby.

EdF reported a loss of FFr4bn last year, partly a result of a drought which meant its nuclear plant was short of cooling water. More importantly, the utility's continuing losses reflect the Government's policy of holding price rises well below the inflation rate.

Electricity prices are set in renewable four-year operating agreements with the Goverment.

The most recent agreement, which runs to the end of 1992, obliges EdF to hold prices at 1.5 percentage points below the inflation rate, as well as binding it to reduce its FFr232bn debts by FFr20bn.

In the event, the Government has squeezed EdF even harder than that.

Last year's average price increases came out at 0.6 per cent, less than half the 1.5 per cent laid down in the original budget, which was itself based on an inflation forecast below the actual rate.

This has caused Mr Pierre Delaporte, EdF's chairman, to remark more than once that EdF's state shareholder appears to think it "indecent" for public service companies to make profits.

William Dawkins

SWEDEN
Safest in the world, but heading for closedown — at a cost

SWEDEN is *reputed* to have the safest nuclear industry in the world, but it is committed to being the first country to dismantle its nuclear reactors.

However, this autumn the Swedish parliament is due to reappraise its non-nuclear strategy and enormous pressure is building in favour of its abandonment. The manufacturing companies and blue-collar unions, in particular, fear lost markets and massive job cuts if the first two of Sweden's 12 reactors are shut in 1995-1996 as *planned*. Closure of the rest is expected by 2010.

But it remains unclear whether any compromise will be possible which can reconcile the aspirations of the powerful anti-nuclear movement and demand from both Swedish industry and the public for the relatively cheap energy which nuclear power provides.

Over the past year an estimated 30 independent reports have been published on various aspects of the question which now dominates public debate. Most of the evidence available suggests that abandoning its nuclear industry would be costly to Sweden and would have a grave impact on the country's international competitiveness.

The trouble is that nuclear power has become crucial for the country's energy needs since its inception in the early 1970s. Just under half Sweden's electricity is now generated from its nuclear plants with most of the rest derived from hydropower. No obvious alternative energy sources are available to replace nuclear at a comparable price and in sufficient supply.

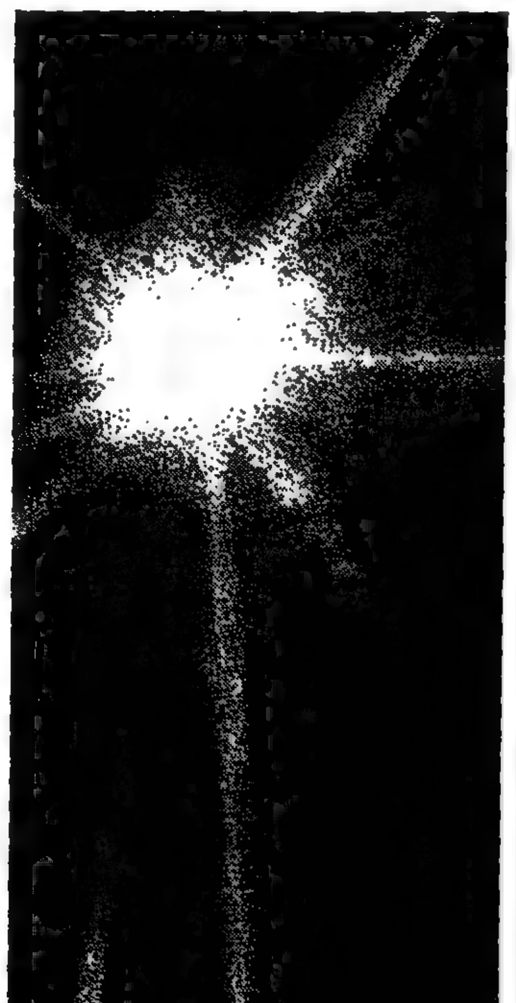
No obvious alternative sources are available

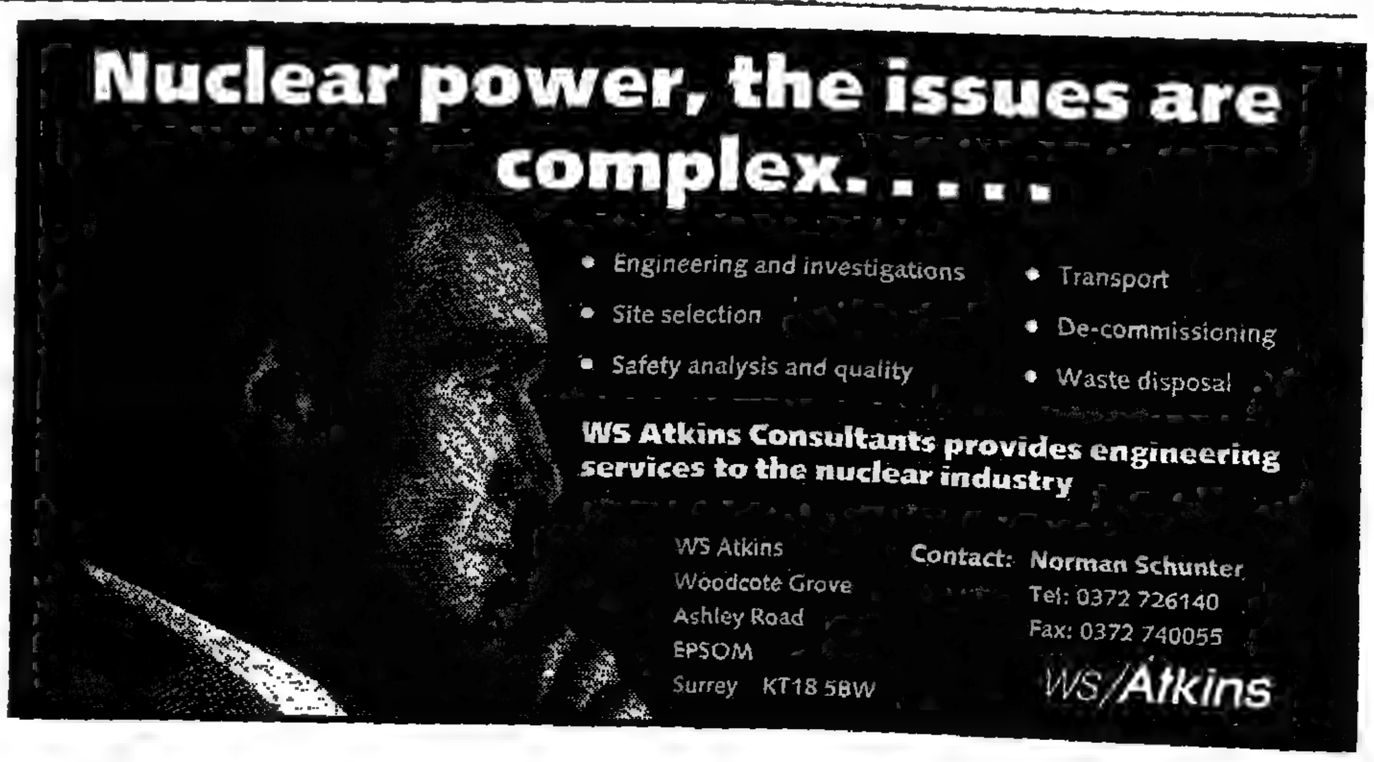
Investment in wind and solar power as well as the use of biomass technology has so far failed to advance. Oil and natural gas remain expensive substitutes which would have to be imported and would undermine Sweden's stringent environmental pollution laws by increasing atmospheric emissions.

The nuclear energy issue has aroused high emotions in a country renowned for its clinical rationalism in problem-solving. The question played an important part in the 1976 general election and the defeat of the Social Democrats, when the leader of the Centre party, Mr Thorbjorn Falldin, campaigned successfully on an anti-nuclear platform.

The Three Mile Island disaster in the US in 1979 and, above all, the Chernobyl disaster in the Ukraine in 1986 which led to nuclear fall-out reaching Sweden's northern coastline, both helped to strengthen the anti-nuclear orces, convincing the politicians to abandon the nuclear energy option.

Continued on Page 5





WORLD NUCLEAR INDUSTRIES 5

WEST GERMANY
Long-term opportunities offset by short-term difficulties

THE West German nuclear industry is encountering uncertain times - a period of nervous excitement, mixed with foreboding.

More than four years after the Chernobyl disaster, the psychological fall-out has not dissipated. Public support for a long-term withdrawal from nuclear energy (Ausstieg) has remained consistently strong since 1986, with over one-third of West Germans saying in opinion polls that they favour such a move.

The political and regulatory climate in which the West German nuclear industry operates thus remains one of the toughest in Europe. Although clamour for an immediate nuclear Ausstieg (never supported by more than about 10 or 12 per cent of the population) has waned slightly over the past four years, the industry has had to live with a series of damaging setbacks.

The Wackersdorf commercial reprocessing project, which always looked like a costly white elephant, has been abandoned, and the Kalkar fast breeder on the Lower Rhine is enduring an agonisingly slow death.

A scandal over nuclear waste transport has led to a thorugh shake-up of that sector, the export market remains as difficult as ever, and in spite of the buoyant economy, and the fillip to growth expected from German unification, hopes of further orders for German nuclear plants up to the end of the century have died.

German unification did deliver the German nuclear industry a further commercial springboard into Eastern Europe: Kraftwerk Union, the nuclear manufacturer which has now been fully subsumed into Siemens as the giant electrical group's power generation division, has been at work for several years on building modernisation and maintenance orders for the Soviet Union.

The most immediate consequence of unification, however, has been negative. Mr Klaus Töpfer, the Environment Minister, said earlier this month that the existing nuclear reactors in East Germany are likely to be permanently shut down, while those still under construction will probably be abandoned.

This follows a series of revelations about poor safety and harrowing news about the risks of a "German Chernobyl" at the reactor complex at Greifswald on the north German coast. Assurances that the safety standards built into West Germany's light water reactors are hugely superior to those in East Germany have failed to reassure the public.

Three Soviet-designed light water reactors at Greifswald – the WWER 440 type – have already been closed this year, with one more scheduled to shut down. Another four slightly modernised reactors at Greifswald, under construction for 10 years, are unlikely to ever go on-stream. Plans for two larger WWER 1000 reactors at Stendal near Magdeburg seem almost certain to be dropped.

Mr Klaus Barthelt, the veteran former chairman of KWU, who stepped down last year, has kept up his call for further extension of nuclear energy to meet growing world demand. In 1961, when the first German nuclear power station went into operation, the world's population was 3bn, Mr Barthelt said earlier this year; it has now virtually doubled, and is on the way towards 12bn. Mr Barthelt has been propagating the somewhat minimalist line for several years now that the world's nuclear industry still has a future – even if Germany's has not.

Such refrains from nuclear industrialists have become increasingly desperate. KWU has been shedding its workforce because of diminishing business, and the share of nuclear contracts on its order book has dropped to less than half.

KWU has pooled its expertise in selling pressurised water reactors abroad with Framatome, the French nuclear power company, with the new joint venture Nuclear Power International which started at the end of 1989.

Franco-German co-operation in PWRs has been an aim of the nuclear industry for 20 years. But the eventual link-up was a sign of the pronounced weakness of export markets rather than strength. The nuclear industry believes that the share of nuclear electricity in German generating capacity has reached a plateau.

In West Germany, the percentage of the overall public electricity production has reached 40 per cent, but the figure for the whole of Germany will be lower, because of the importance of fossil fuel generation in East Germany.

The prospect of a sharp reduction in lignite-fired generation in East Germany for environmental reasons is causing no great enthusiasm in the nuclear industry. Orders certainly beckon for the makers of conventional power stations (where KWU of course also has a strong position). The prospective East German energy gap is likely to be met by a mixture of electricity sales from the the West German regions and by a more modern coal- and gas-fired plant.

The signal for a far-reaching extension eastwards of the activities of West Germany's chief utilities was given in August with the clinching of a deal for RWE, PreussenElektra and Bayernwerk to take over East Germany's electricity industry. The three companies are to invest initially DM1.9bn in modernising and cleaning up East Germany's electricity sector.

As a compromise with the German Cartel Office, the three companies will share ownership of an electricity holding company with smaller German utilities, along with the French state-owned Electricité de France.

The prospect in the next decade of a second economic miracle east of the Elbe makes the East German areas extremely attractive to the entire European energy industry – including EdF. Yet the last few months show that in both East and West Germany the opportunities for the nuclear sector remain small in relation to future challenges.

David Marsh

David Fishlock reports on a concerted effort to improve safety

The Chernobyl club: strong as the weakest member

THE explosion of the Soviet reactor at Chernobyl in April 1986 convinced Western nuclear industry leaders that a central ingredient was missing from nuclear regulation.

The circumstances which led to this disaster made it plain that every operator of a commercial nuclear plant was at the mercy of the weakest, most careless among them; and another serious accident could turn public opinion irrevocably against nuclear power.

Nuclear operators needed a club with a charter requiring each member to strive constantly for the highest standards of practice and training. Any idea that such standards could be imposed had been destroyed by Chernobyl.

The US operators had formed such a club after the accident at the Three Mile Island reactor in 1979. The Institute of Nuclear Power Operations (Inpo) in Atlanta, Georgia, to which every commercial US nuclear operator belongs, has enormously improved US nuclear safety and performance over the past ten years. Since Chernobyl, US and French industry leaders, with more than 160 commercial reactors between them, concluded that Inpo's principles must be extended to every nuclear operator in the world, now it had been made clear that a nuclear accident respected no national boundaries and that immense investment was at risk.

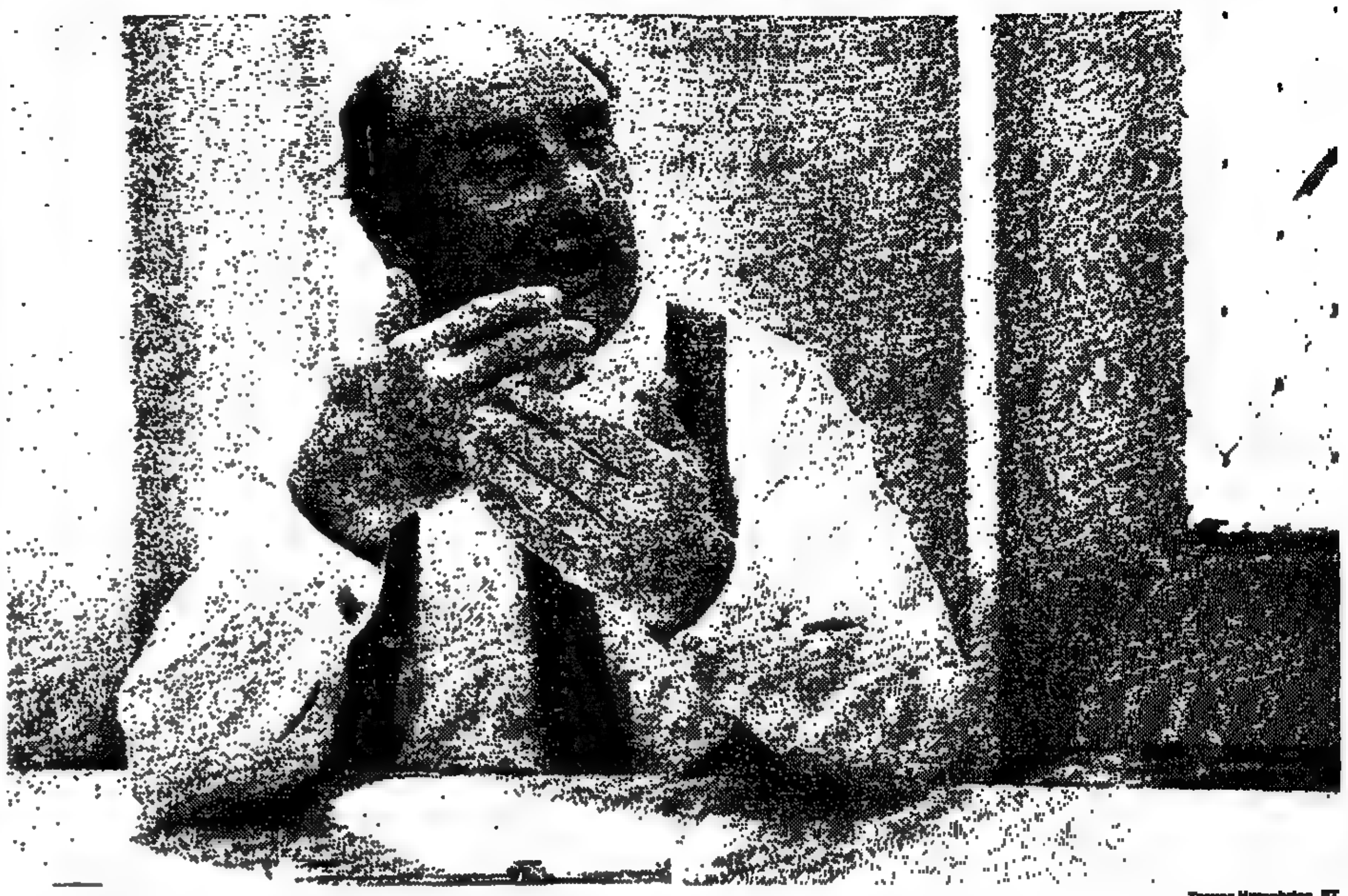
The outcome is the World Association of Nuclear Operators (Wano), inaugurated in Moscow in May 1989. Only two nuclear operators failed to attend this gathering – China and Romania. Neither has commercial reactors operating at present, and both are expected to sign up before they do.

Chairman and chief protagonist for Wano is Lord Marshall, until recently chairman of the Central Electricity Generating Board, who has effectively made it a full-time task since he was deposed as leader of the UK nuclear industry last autumn. He undertook from the start the delicate diplomacy of persuading governments – particularly that of the USSR – to sacrifice some nuclear independence in order to make Wano work.

The overwhelming achievement has been the rapport with the USSR

It was Lord Marshall's idea to avoid the considerable management risks of a single headquarters by dividing the club between four regional centres, each self-governing, to which its corps of members owe allegiance. Atlanta, with the experience of Inpo, was the obvious choice for North America. Moscow was obvious for the Eastern bloc. The others are Tokyo for the Far East and Paris covering western Europe, South Africa and South America. A small co-ordinating office has opened in London.

The overwhelming achievement of Wano has been the rapport established with the USSR, says Lord Marshall. Moscow's hosting of the inauguration was psychologically important in avoiding temptation by other members to attack the Soviets over Chernobyl. He says the Moscow centre is well staffed with a Russian in charge and a Czech as deputy. Wano has provided the computers which link it with other centres. But communication is mainly by telex to avoid the idiosyncrasies of the Soviet telephone system.



Trevor Humphries, FT

Lord Marshall, chairman of Wano: undertook from the start the task of persuading governments to sacrifice some independence

Wano's rules require every incident to be reported, in the confidence that it will not be publicised. "And it's working," Lord Marshall says. "Reports of incidents land on my desk every day." Wano has its own definition of an incident as an event which has had – or might have had – significance for reactor safety. "Every time we get an event reported we know it's worth looking at. The 157 which had reached London by August included management errors, malfunctions, misinterpretations of signals. Most came from Atlanta or Paris but Moscow reported several incidents."

To sustain enthusiasm for reporting incidents, Lord Marshall has set Wano an ambitious target of international visits by nuclear operators to other countries, in quest of a common culture of nuclear safety. Before Chernobyl a Soviet station manager or chief engineer would never expect to visit a western nuclear plant.

His programme calls for the senior staff of every Eastern bloc nuclear station to make at least one visit to another region, and to host at least one visit, before Wano's second birthday next April. Typically, there would be four or five visitors, including senior members of control room shift teams, and visits last for up to two weeks. Anyone can put on an act for a day, he says, but in ten days the two parties are bound to talk about their real worries. Lord Marshall does not want administrators, bureaucrats, or anyone who is not directly responsible for nuclear operations involved.

Lord Marshall does not want anyone who is not directly responsible

Since the first visit just a year ago, when a US team went to the Zaporozhye and Leningrad stations in the USSR, 41 such visits have been made, of a programme for 50 by the end of the year. One result is plans for a still more detailed kind of exchange, lasting three months, planned privately between Zaporozhye and Duke Power in the US.

Continued from Page 4

A 1980 national referendum result indicated nearly 60 per cent of Swedes favoured the eventual closure of their nuclear industry.

But now the mood has changed significantly as fears have evaporated. A public opinion poll in Sweden carried out by the authoritative SIFO organisation last month found that as many as 58 per cent of people questioned favoured the continued use of nuclear power after the planned closure date of 2010. Just over a quarter supported the present government line of a phased rundown of the industry by that date.

The nuclear industry lobby has not been slow to emphasise its positive contribution to Sweden's energy needs. The International Energy Agency maintains that the country has some of the safest reactors in the world. In the aftermath of Chernobyl the Swedish government ordered an inquiry into conditions in Sweden's reactors, built between 1972 and 1985: it concluded there were no technical risks of a similar accident.

Indeed, the country's reactors are superior in design, strictly supervised and run by highly competent personnel. Sweden has no recorded instance of an accidental release of radioactivity into the atmosphere. This suggests that the Swedish industry is the least dangerous in the world.

The mood has changed significantly

The real threat lies in what might happen in the existing nuclear reactors that lie across the Baltic sea in eastern Germany and the Soviet Union. Some experts believe that the Swedish nuclear industry could provide the expertise for a radical overhaul of those reactors which could endanger the environment of much of northern Europe.

What worries many on both sides is that the sacrifice of the country's cost effective, efficient and safe nuclear plants will make not a scrap of difference to international opinion, particularly among the European economies like France, Germany and Britain – Sweden's main trade rivals.

Moreover, the experts now agree that the closure deadline of 2010 is unrealistic. When first proposed it was based on the assumption that the lifespan of Sweden's nuclear plants would be around 20 years. Now it appears that most will be able to generate energy for at least 40 years. This means the shutdown programme would replace nuclear plants operating at full capacity, not obsolete ones reaching the end of their production.

Robert Taylor

WORLD STOCK MARKETS

AUSTRIA

1990 High	1990 Low	September 21	Price Sch
5,430	2,730	Austrian Airlines	2,730
7,300	4,090	Creditanstalt	4,090
29,590	19,095	Erste Allgemeine	19,095
19,600	10,200	Jungbunzlauer	10,200
1,435	660	Landerbank	1,200
14,230	8,350	OeMV	8,750
2,380	1,430	Perlmooser	1,430
1,400	785	Radex	785
3,400	1,790	Reininghaus	1,790
250	115	Steyr-Daimler	156
1,510	760	Veitscher Mag	761
770	425	Verbund	465
7,580	4,360	Wienerberger	4,370

INDICES

NEW YORK

DOW JONES	Sept. 21	Sept. 20	Sept. 19	Sept. 18	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Industrials	2512.38	2518.32	2557.43	2571.29	2999.75 (16/7)	2483.42 (23/8)	2999.75 (16/7/90)	41.22 (2/7/32)
Home Bonds	89.14	89.29	89.26	89.11	93.04 (3/1)	88.48 (2/5)	—	—
Transport	876.66	878.99	888.31	901.44	1212.77 (6/6)	861.31 (23/8)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	201.71	200.33	201.52	200.52	236.23 (2/1)	190.96 (24/8)	236.23 (2/1/90)	10.50 (8/4/32)

Day's High 2530.37 (2549.01) Low 2479.95 (2495.54)

STANDARD AND POOR'S

	Sept. 21	Sept. 20	Sept. 19	Sept. 18	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite †	311.32	311.48	316.60	318.60	368.95 (16/7)	307.06 (23/8)	368.95 (16/7/90)	4.40 (1/6/32)
Industrials	367.10	367.62	374.05	376.71	437.37 (16/7)	362.23 (23/8)	437.37 (16/7/90)	3.62 (21/6/32)
Financial	21.76	22.01	22.58	22.77	31.87 (3/1)	21.76 (21/9)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	171.03	171.22	173.91	174.88	201.13 (16/7)	168.88 (23/8)	201.13 (16/7/90)	4.46 (25/4/42)
Amex Mkt. Value	316.01	317.18	318.97	319.69	382.45 (3/1)	315.85 (23/8)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	362.25	364.43	371.68	372.22	469.60 (16/7)	360.22 (23/8)	485.73 (9/10/89)	54.87 (31/10/72)

	Sept 14	Sept 7	Aug 24	year ago (approx.)
Dow Industrial Div. Yield	3.95	3.86	4.29	3.76

	Sept 19	Sept12	Sept 5	year ago (approx.)
S & P Industrial div. yield	3.29	3.23	3.24	2.81
S & P Indl. P/E ratio	15.12	15.44	15.47	14.42

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Pepsico	3,334,000	22¼	- ½
Gen Electric	3,206,500	55⅞	+ ¼
Exxon	2,620,900	51¼	+ ⅛
Chase Man	2,599,400	12¼	- 1
Am T & T	2,498,000	31⅞	- ⅞
Philip Morris	2,439,500	44⅛	- ¼
Boeing	2,383,400	43⅞	- ½
Gen Motors	2,357,400	36⅝	- ¼
Citicorp	2,319,700	15⅛	- ⅞
Wal-Mart Stores	2,217,000	26¾	+ ⅛

TRADING ACTIVITY

† Volume Millions	Sept.21	Sept. 20	Sept. 19
New York	201,050	145,100	147,530
Amex	[illegible]	9,340	8,395
NASDAQ	(u)	107,920	120,867
Issues Traded	1,986	1,971	1,966
Rises	602	286	577
Falls	920	1,241	888
Unchanged	464	444	501
New Highs	11	6	19
New Lows	270	259	139

CANADA

TORONTO	Sept 21	Sept 20	Sept 19	Sept 18	1990 HIGH	1990 LOW
Metals & Minerals	2984.66	3034.39	3079.30	3062.06	3453.05 (4/1)	2850.80 (23/4)
Composite	3235.38	3256.36	3275.58	3266.69	4009.47 (3/1)	3235.38 (21/9)
MONTREAL Portfolio	1707.30	1715.54	1726.13	1716.52	2060.90 (3/1)	1698.67 (14/9)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Sept. 21	Sept. 20	Sept. 19	Sept. 18	1990 HIGH	1990 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1436.0	1446.6	1461.7	1472.3	1713.7 (12/1)	1428.0 (21/9)
All Mining (1/1/80)	715.9	727.0	728.0	739.2	860.8 (5/1)	711.7 (2/7)
AUSTRIA						
Credit Aktien (30/12/84)	443.33	458.46	463.86	467.01	703.29 (19/3)	443.83 (21/9)
BELGIUM						
Brussels SE (Cash Mkt) (1/1/80)	(u)	5211.19	5246.06	5336.27	6599.43 (12/1)	5211.19 (20/9)
DENMARK						
Copenhagen SE (3/1/83)	342.02	348.74	351.73	353.48	398.39 (20/7)	342.02 (21/9)
FINLAND						
Unitas General (1975)	439.7	444.1	450.4	460.6	677.3 (23/1)	439.7 (21/9)
FRANCE						
CAC General (31/12/82)	418.36	428.76	433.02	436.06	564.62 (30/5)	417.98 (22/8)
CAC 40 (31/12/87)	1543.53	1540.60	1570.28	1579.93	2129.32 (20/4)	1540.60 (20/9)
GERMANY						
FAZ Aktien (31/12/58)	611.02	627.79	634.66	647.68	832.32 (19/7)	611.02 (21/9)
Commerzbank (1/12/53)	1754.3	1800.7	1820.3	1855.8	2414.0 (3/4)	1754.3 (21/9)
DAX (30/12/87)	1446.57	1487.51	1487.54	1507.27	1968.55 (30/3)	1446.57 (21/9)
HONG KONG						
Hang Seng Bank (31/7/64)	2931.86	2984.54	2988.95	2956.66	3559.89 (23/7)	2738.24 (1/2)
IRELAND						
ISEQ Overall (4/1/88)	1247.63	1263.03	1288.70	1290.66	1893.18 (22/1)	1247.63 (21/9)
ITALY						
Banca Com. Ital. (1972)	562.30	572.22	583.46	595.68	763.92 (14/6)	562.30 (21/9)
JAPAN						
Nikkei (16/5/49)	23777.83	23602.98	23726.17	23884.82	38712.88 (4/1)	23602.98 (20/9)
Tokyo SE (Topix) (4/1/68)	1769.37	1767.97	1799.72	1816.35	2867.70 (4/1)	1767.97 (20/9)
2nd Section (4/1/68)	3342.09	3394.54	3409.74	3474.99	4477.16 (16/7)	3313.92 (8/9)
MALAYSIA						
KLSE Composite (4/4/86)	507.24	518.98	525.18	528.43	632.22 (1/8)	480.77 (23/8)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	239.6	240.1	243.2	243.1	271.9 (20/7)	236.7 (23/8)
CBS All Shr (End 1983)	175.9	176.3	178.5	178.5	206.3 (3/1)	175.9 (21/9)
NORWAY						
Oslo SE Gen (2/1/83)	840.53	853.85	864.77	875.79	915.13 (3/8)	701.62 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	626.26	643.91	621.51	615.39	1160.70 (21/3)	615.39 (18/9)
SINGAPORE						
SES All-Singapore (2/4/75)	326.25	331.99	330.43	334.78	446.07 (18/7)	321.66 (23/8)
SOUTH AFRICA						
JSE Gold (28/9/78)	1492.06	1497.0	1506.0	1553.0	2298.0 (18/1)	1322.0 (20/6)
JSE Industrial (28/9/78)	2673.06	2687.0	2698.0	2731.0	3211.0 (6/2)	2673.0 (21/9)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	584.60	585.19	592.80	589.42	928.82 (4/1)	566.27 (17/9)
SPAIN						
Madrid SE (30/12/85)	221.28	224.14	225.86	224.76	309.74 (16/7)	221.20 (21/9)
SWEDEN						
Affarsvärlden Gen. (1/2/37)	1061.6	1086.7	1090.1	1089.6	1329.9 (5/7)	1061.6 (21/9)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	649.1	652.5	662.7	666.0	845.5 (13/7)	649.1 (21/9)
TAIWAN**						
Weighted Price (30/6/66)	3111.41	2956.72	3159.27	3291.65	12495.34 (10/2)	2956.72 (20/9)
THAILAND						
Bangkok SET (30/4/75)	637.95	647.35	686.63	687.93	1143.78 (25/7)	637.95 (21/9)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	446.5	454.0	460.0	571.0 (4/1)	446.5 (20/9)

**Saturday September 15: Taiwan Weighted Price: 3362.25. Korea Comp Ex. 590.62

‡ Subject to official recalculation.

Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

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AUTHORISED UNIT TRUSTS

GUIDE TO UNIT TRUST PRICING

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Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Target Trust Mngrs Ltd (1600)F						
Target Hse, Gatehouse Rd, Aylesbury, Bucks.						
Admin: 0296 394000 Dealing: 0296 312156						
American Eagle	5	61.31	61.31	65.46	1.18	41482
Australia	5	6.346	6.346	6.789	3.93	41483
Equity	5	135.8	135.8	145.8	5.28	41486
Euro Spec Sits	5	99.13	99.13	106.7	0.65	41487
Financial	5	23.77	23.89xd	25.73	3.37	41488
Global Opps Inc	5	58.40	58.40	62.90	0.00	41489
Global Opps Acc	5	58.84	58.84	63.37	0.00	41490
Gold & Gen Inc	5	41.66	41.66	44.76	0.89	41491
Gold & Gen Acc	5	77.66	77.66	83.42	0.89	41492
Income	5	82.60	82.60xd	89.02	6.96	41493
Japan & General	5	108.2	108.2xd	116.5	0.00	41494
Preference Share	5	17.18	17.18	18.49	14.15	41497
UK Capital	5	74.18	74.18xd	79.69	4.23	41500
World Income	5	54.01	54.01	57.93	6.10	41501
Worldwide Capital	5	144.0	144.0	154.9	3.53	41502
Templeton Unit Trust Managers Ltd (1200)F						
Atholl Crescent, Edinburgh EH3 8HA 031 228 3932						
Global Growth Acc	6	99.68	100.40	107.38	3.51	46671
Global Growth Inc	6	95.78	96.47	103.17	3.51	46672
Global Balanced Acc	6	98.47	98.93	105.81	4.72	46669
Global Balanced Inc	6	93.62	94.06	100.63	4.72	46670
Value Tst Acc	6¼	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Value Tst Inc	6¼	69.16	70.19	75.07	4.42	46990
Intl Fin & Cr'ties Inc	2	94.25	95.64	100.41	3.60	46989
Intl Fin & Cr'ties Acc	2	92.41	93.78	98.46	3.60	41505
Thornhill Unit Trust Managers Ltd (1200)F						
28 St John's Sq, London EC1M 4AE 071-251 6767						
Capital	5	44.86	45.17	48.05	-	47874
Overseas	5	40.13	40.44	43.02	-	47875
Thornton Unit Managers Ltd (1000)F						
33 Cavendish Sq, London W1M 0DH 071-493 7262						
Dealing 071-493 8545						
American Opps	5	43.95	43.95	46.87	0.24	41506
(Accum Units)	5	45.23	45.23	48.24	0.24	41507
Cash	0	50.33	50.33	50.33	14.78	45247
Accum Units	0	50.33	50.33	50.33	14.78	45248
European Opps	5	62.24	62.24	66.38	0.00	41508
(Accum Units)	5	62.58	62.58	66.74	0.00	46366
Far Eastern Opps	5	103.44	103.44	110.33	0.00	41509
(Accum Units)	5	104.11	104.11	111.04	0.00	41510
Intl Hi-Yield	5	50.05	50.34	53.68	5.13	41512
(Accum Units)	5	54.56	54.87	58.52	5.13	[illegible]
Sanyo Japan Tst	5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
(Accum Units)	5	58.13	58.13	61.99	0.00	41514
Little Dragons	5	36.36	36.36	38.78	0.00	43157
(Accum Units)	5	36.36	36.36	38.78	0.00	43158
Oriental Income	5	29.75	29.75xd	31.72	5.51	41516
(Accum Units)	5	34.44	34.44xd	36.72	5.51	41517
Tiger	5	116.96	116.96	124.74	0.89	41520
(Accum Units)	5	119.19	119.19	127.13	0.89	41521
UK Hi-Yield	5	33.98	33.98	36.23	6.31	41522
(Accum Units)	5	39.76	39.76	42.40	6.31	46302
UK Smllr Cos	5	46.62	46.62	49.85	0.85	41523
(Accum Units)	5	50.79	50.79	54.31	0.85	41524
Three Counties Asset Mngmt Ltd (1430)F						
Cuthbert House, Tower Road, Washington NE37 2SH 091 415 3034						
Balanced Portfolio	6	81.98	83.75	88.77	6.20	47982
Cash Deposits		101.74	101.74	101.74	14.00	44078
Timberlake Trust Mngrs Ltd (0900)F						
2 White Hart Yard, London SE1 1NX 071-407 5966						
Portfolio	2	89.64	89.64	92.77	2.17	42679
Touche Remnant Unit Tst Mngt Ltd (1600)F						
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 071-248 1250						
4 Hourly Pricing – 12 Noon Historic						
TR American Grwth	5¼	38.19	38.19xd	40.73	0	41525
TR Eur Sp Sits Acc	5¼	36.62	36.62	39.02	0	41526
TR Eur Sp Sits Inc	5¼	35.91	35.91	38.26	0	41527
TR Far East Opps Inc	5¼	16.64	16.64	17.78	0	41680
TR Far East Opps Acc	5¼	16.64	16.64	17.78	0	41685
TR General Growth	5¼	63.95	63.95	68.03	3.53	41528
TR Global Tech	5¼	59.28	59.28	63.23	0	41529
TR Income Growth	5¼	72.68	72.98	77.63	5.08	41530
TR Income Monthly	5¼	44.45	44.45	47.28	8.13	41531

	Bid Price	Offer Price	Yield Gross	City-line
Murray Johnstone UT Mngmt				
Murray Exempt Funds				
Amer Expt Sept 19	39.6	41.6	2.64	41064
Euro Expt Sept 19	48.7	51.1	2.74	41065
Fixed Int Ex Sept 19	42.4	43.5	11.62	46594
Japan Expt Sept 19	39.2	40.8	0.81	41066
Managed Ex Sept 20	37.7	39.2	5.55	41067
SE Asia Expt Sept 19	57.1	59.9xd	3.50	41068
Sm Cos Expt Sept 19	31.3	32.8	5.39	41069
UK Eqty Ex Sept 19	36.0	37.8xd	3.62	41070
Phillips & Drew Fund Management Ltd				
Small Co's Sep 5	641.8	685.6	5.25	41138
Do Accum.	706.9	755.2	5.25	41139
Int Expt Sept 20	154	156.3	3.6	41140
UK Index Sept 5	1015	1035	5.1	46945
Do Accum.	1059	1080	5.1	46946
Convertible Sept 17	81.33	83.79	9.0	46938
World ex UK Index Sept 17	660.9	669.8	2.34	47887
Do Accum.	660.9	669.8	2.34	47888
Japan Index Sept 17	534.2	541.9	0.6	47881
Do Accum.	535.2	542.8	0.6	[illegible]
USA Index Sept 17	753.1	758.0	3.7	47885
Do Accum.	763.7	768.6	3.7	47886
Europe ex UK Index Sept 17	820.0	832.8	2.9	47879
Do Accum.	840.0	853.0	2.9	47880
Pacific ex Jap Index Sept 17	808.1	832.0	5.3	47883
Do Accum.	823.4	847.6	5.3	47884
Managed Exempt Sept 20	89.64	91.18	5.61	40338
NM Rothschild Asset Management Ltd				
NC Managed	51.4	54.7xd	4.34	40339
NC Property	179.5	196.5	-	41205
J. Rothschild Fund Managers Ltd				
Intl Exempt Accum	130.5	131.6	2.97	44085
Stewart Ivory & Co Ltd				
Saints PPP Aug 13	245.8	250.1	-	41422
Closed to new business				
Thornton Unit Managers Ltd				
Managed Exempt Sept 17	89.02	94.25	4.39	46975
(Accum Units)	90.78	96.12	4.39	46976
Touche Remnant Unit Tst Mngt Ltd				

INSURANCES

AA Friendly Society

Abbey Life Assurance Co Ltd

Aetna Life Assurance Ltd

AEtna Life Insurance Co Ltd

Albany Life Assurance Co Ltd

Allied Dunbar Assurance Plc

Ambassador Life Assce. Co Ltd

American Life Insurance Co UK

Avon Insurance Plc

Barclays Life Assur. Co Ltd

Black Horse Life Ass. Co. Ltd

Britannia Life Ltd

Canada Life Group

Cannon Assurance Ltd

Citicorp Scottish Provident

City of Edinburgh Life Assurance

City of Westminster Assurance

Clerical Medical/Fidelity International

Clerical Medical/Fidelity International – Contd.

Clerical Medical Investments Group

Clerical Medical Managed Funds Ltd

Colonial Mutual Group

Combined Insurance Co of America

Commercial Union Group

CCL Assurance Ltd

Cornhill Insurance PLC

Crown Financial Management Ltd

Crusader Insurance Plc

Eagle Star Insurance Co Ltd

Eagle Star Insur./Midland Assur.

Economic Insurance Company Ltd

Equitable Life Assurance Society

Family Assurance Society

Friends Provident

GT Unit Managers Ltd

General Accident (z)

General Portfolio Life Insce Plc

Assicurazioni GENERALI SpA

Gresham Unit Assurance Ltd

Growth & Sec. Life Assce. Soc. Ltd

Guardian Royal Exchange

Hearts of Oak Insurance Group

Henderson Administration

Hill Samuel Life Assur. Ltd

Homeowners Friendly Society

Ideal Insurance Co Ltd

Interlife Assurance Co Ltd

Irish Life Assurance Co Plc

Lancashire & Yorkshire Assce Society

Laurentian Life plc

Legal & General (Unit Assur) Ltd

Legal & General (Unit Pensions) Ltd

Liberty Life Assurance Co Ltd

The Life Association of Scotland

	Bid Price	Offer Price	Yield Gross	City-line
Lifetime Assurance Co Ltd				
Bank Hse, St John's Rd, Harrow HA1 2EE 081-861 5979				
Managed Security	97.3	102.5	-	44593
Managed Growth	92.2	97.1	-	44594
Managed Opportunity	81.2	85.5	-	44595
Property	99.1	104.4	-	44598
Fixed Interest	97.1	102.3	-	44600
Cash	99.0	104.3	-	[illegible]
UK Equity	85.5	90.0	-	44631

London Indemnity & Gnl. Ins. Co Ltd

London Life

London & Manchester Group

M & G Life and M & G Pensions

MGM Assurance

MLA

Manchester Unity Assurance

Manulife Group PLC

	Bid Price	Offer Price	Yield Gross	City-line
Merchant Investors Assurance Co Ltd – Contd.				
MI Gar Japan	103.9		-	46737
MI Gar Pacific Grth	121.3		-	46739
MI Hen Spec Situations	96.3		-	47092
MI Hen Recovery	83.9		-	47093
MI Hen Financial	87.7		-	47094
MI Hen Inc & Growth	102.3		-	47095
MI Hen Inc & Assets	101.8		-	47096

Mercury Life Assurance Co Ltd

Midland Life Limited

NEL Britannia Assce Co Ltd

NEL Pensions Ltd

NM Life Assurance Ltd

N & P Life Assurance Ltd

National Financial Management Corp PLC

National Mutual Life

National Provident Institution

Continued on next page

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

Cent. Bd. of Fin. of Church of England

Charinco/Charishares

CAFINVEST–Charities Aid Foundation

COIF–Charities Official Inv Fdre

Edinburgh Fund Mngrs PLC

Fidelity Investment Services Ltd

Robert Fleming Asset Mngmt Ltd

Foreign & Colonial Pens Mngt Ltd

Funds in Court

Henderson Unit Trust Management Ltd

Lazard Brothers & Co Ltd

Lazard Investors Ltd

Local Authorities Mutual Invest. Tst.

M & G Securities Ltd

MIM Ltd

Morgan Grenfell Unit Trust Managers Ltd

Trades Union Unit Tst Mngrs Ltd (1200)H

Triton Fd Mngrs. Ltd. (1000)H

Tyndall Unit Tst Mngrs Ltd (1600)F

UK Unit Trust Managers Ltd (0905)F

UTAM Ltd (1300)F

United Charities Unit Trusts (1000)H

Wardley Unit Tst Mngrs Ltd (1300)F

Waverley Unit Tst Mngmt Ltd (1000)F

Wessex Asset Management (1530)F

Whittingdale Unit Tst Mgmt Ltd

Willbro Financial Services Ltd (0905)F

Wright Seligman Fund Mngrs Ltd (1700)F

The Yorkshire Unit Tst Mngrs Ltd (1100)F

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Norwich Union Asset Management Ltd

Providence Capital Life Assc. Co Ltd – Contd.

Royal Life Insurance Ltd

Skandia Life Assurance Co Ltd – Contd.

Sun Alliance Group – Contd.

Windsor Life Assur Co Ltd

Sun Alliance International Life

J. D. Ward Financial Services Ltd

Target International Group

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

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	Bid Price	Offer Price	Yield Gross	City-line
Arab Bank Fund Managers (Guernsey) Ltd				
ABL International Fund Ltd				
US Dollar Money	$10.26	10.26	–	47942
Managed Currency	$10.30	10.32	–	47941
International Bond	$10.17	10.19	–	47940
Baring Int Fund Managers Guernsey Ltd				
Mngd Portfolio (Dlr)	$10.13	10.76	–	47318
Mngd Portfolio (Stg)	£3.91	4.21	–	47319
Baring Currency Fund Ltd				
US Dollar	$14.42		–	44754
Sterling	£17.42		–	44755
Deutschemark	DM37.67		–	44756
Japanese Yen	Y3,768		–	44757
Managed	$39.87	41.86	–	44758
Dantrust Management (Guernsey) Ltd				
Dantrust Limited	Dk114.20	114.5	–	44873
Fipart–Conseil Fund Mngrs (Guernsey) Ltd				
Hauteville G & B Fd	SFr7.95	8.01	2.85	46845
John Govett Mngmnt International Ltd				
Govett High Inc Gilt	[illegible]	0.3597	14.46	45140
Govett Far East Inv	$0.893	0.955	–	45141
Energy & Resources	$0.738	0.789	–	45142
Hambros Fund Managers (CI) Ltd				
Japanese OTC	$9.0487	9.6773	–	43785
Henderson Throgmorton Mngmt Ltd				
Intl Inv–Stg High Inc	£9.779	10.304	10.09	47649
Intl Inv–Intl High Inc	$48.111	50.709	5.54	47648

	Bid Price	Offer Price	Yield Gross	City-line
Sarasin (Isle of Man) Ltd				
Fergus Fd Sept 20	£11.81		–	47346
UK Trend Sept 20	£8.38		–	47347
Target International (Isle of Man) Ltd				
IMC Offshore Fd	£8.07	8.73	–	46450
Fleet Street Inv Fd	£7.07	7.30	–	46578
Offshore Income Fd Ltd	£8.95	9.41	–	46580
Nelson Money W/W S/S	£9.51	10.04	–	46581
Tattersall Intl Assets	£7.23	7.54	–	46805
Tyndall International (Isle of Man) Ltd				
H.I. Gilt/Bulldog	96.9		–	45884
(Accum Shares)	154.5	162.3	–	45885
Unibank Scandinavian Fund Ltd				
Scandinavia Fd	178.50	190.13	1.01	45023

JERSEY (SIB RECOGNISED)

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Barclays International Funds						
PO Box 152, St Helier, Jersey CI						0534 67888
Australian Eq (Inc)	5¼	£0.906	0.911	0.975	2.5	44738
Global Income (Inc)	5¼	£0.404	0.412	0.441	4.4	44730
Global Resources R	5¼	£0.400	0.400	0.427	1.3	44742
Currency Fund						
Stg Premium Income R		£10.09		10.10d	13.8	47426
Capital House Fund Mgrs (CI) Ltd (0900)H						
PO Box 189, Capital Hse, Bath St, St Helier, Jersey						

LUXEMBOURG (REGULATED)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

JERSEY (REGULATED)

LUXEMBOURG (SIB RECOGNISED)

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)

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CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Managing the lira

A FEATURE in the currency markets which has received little attention recently is the extraordinary volatility of the Italian lira. While the dollar dipped close to an all-time low, the lira fell last week to the bottom of the European Monetary System grid, before later rebounding as market rates firmed.

Behind this unusual movement has been an attempt by the Bank of Italy to offset the impact of higher oil prices by injecting liquidity into the money markets. At one stage during the begining of this month, daily bank reserves were estimated to have more than doubled to L10,000bn.

The increase in liquidity resulted in a collapse in short-term rates which, in turn, naturally has forced the lira to fall faster. The weakness in the lira took many analysts by surprise. "We expected the lira to fall, but over a six months period, not just one," said Dr Mario Noera of Euromobilaire in Milan.

After the initial surge in oil prices, yields on Italian bonds rose by 120 basis points. This threatened the Bank of Italy's ability to sell the massive amount of paper to the market needed to finance Italy's huge public sector deficit.

The response of the Bank has been to boost liquidity, thus depressing yields and allowing the debt to be taken up.

But the impact of this strategy has been to weaken the lira, and at least twice last week the Bank of Italy was forced to intervene in the currency markets.

A period of relative lira strength is expected ahead of the next debt auction at the end of September.

However, if short-term rates weaken at the time of the auction the lira could be depressed and the Bank of Italy forced to raise official rates.

UK clearing bank base lending rate 15 per cent from October 5, 1989

£ IN NEW YORK

Sep.21	Close	Previous Close
£ Spot	1.8430-1.8440	1.8725-1.8735
1 month	0.99-0.98pm	1.02-1.01pm
3 months	2.91-2.89pm	2.98-2.96pm
12 months	10.00-9.90pm	10.1-10.0pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

Sep.21	Bank of England Index	Morgan** Guaranty Changes %
Sterling	92.5	-18.7
U.S Dollar	62.9	-16.1
Canadian Dollar	103.3	+1.1
Austrian Schilling	109.6	+11.5
Belgian Franc	111.6	-2.3
Danish Krone	110.7	+4.9
Deutsche Mark	118.7	+24.3
Swiss Franc	115.7	+24.3
[illegible]	[illegible]	[illegible]

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

OTHER CURRENCIES

[illegible]

CHICAGO

[illegible]

PHILADELPHIA SE £/$ OPTIONS

[illegible]

Previous day's open int. Calls 278,487 Puts 284,065 (All currencies)
Previous day's volume: Calls 17,623 Puts 6,472 (All currencies)

POUND SPOT - FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

[illegible]

EXCHANGE CROSS RATES

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

NEW YORK

Sep.21	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	7.95-8.05	8.10-8.25	8.20-8.35	8.25-8.40	8.55-8.70	8.00
Paris	9½-9⅝	9⅝-9⅞	10⅛-10¼	10⅛-10¼	10⅜-10½	9.50
Zurich	5⅞-6⅛	7⅜-7⅝	-	7⅞-8⅛	-	-
Amsterdam	8.12-8.25	8.25-8.32	-	8.40-8.50	-	-
Tokyo	7⅞-7⅞	8⅛-8⅛	-	8⅛-8⅛	-	-
Milan	9⅞-10⅛	10⅛-10⅜	-	10⅞-11	-	-
Brussels	8.30	8⅞-9	-	9-9⅛	-	-
Dublin	10⅜-10⅝	10⅞-10⅝	10⅞-11⅛	11⅛-11⅜	11⅛-11⅜	-

LONDON MONEY RATES

Sep 21	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	16	14⅞	15	15	14⅞	14½
Interbank Bid	14½	14⅞	14⅞	14⅞	14⅞	14⅜
Sterling CDs	-	-	14⅞	14⅞	14⅞	14⅝
Local Authority Deps.	14½	14⅞	14⅞	14⅞	14⅞	14½
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	15½	14⅞	14⅞	14⅞	-	-
Company Deposits	-	-	14⅞	14⅞	14⅞	14⅝
Finance House Deposits	-	-	14⅞	14⅞	14⅞	14⅜
Treasury Bills (Buy)	-	-	14⅝	14⅝	-	-
Bank Bills (Buy)	-	-	14⅞	14⅞	13⅞	-
Fine Trade Bills (Buy)	-	-	15⅛	14⅞	14⅞	-
Dollar CDs	-	-	8.29	8.29	8.29	8.32
SDR Linked Dep. Offer	-	-	9⅛	9⅛	9⅛	9⅛
SDR Linked Dep. Bid	-	-	8⅞	9⅛	9⅛	9⅛
ECU Linked Dep. Offer	-	-	9⅞	10	10⅛	10⅛
ECU Linked Dep. Bid	-	-	9⅞	9⅞	10⅛	10½

Treasury Bills (sell); one-month 14⅜ per cent; three months 14¼ per cent; six months 13¾ per cent; Bank Bills (sell): one-month 14⅞ per cent; three months 14⅞ per cent; Treasury Bills; Average tender rate of discount 14.2189 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day August 31, 1990. Agreed rates for period Sept 26.1990 to Oct 23, 1990, Scheme I: 15.80 p.c. Schemes II & III: 16.27 p.c. Reference rate for period Aug 1,1990 to Aug 31, 1990, Scheme IV&V: 15.021 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed Finance Houses Base Rate 15 from September 1, 1990: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6), Deposit £100,000 and over held under one month 11½ per cent; one-three months 13 per cent; three-six months 13 per cent; six-nine months 13 per cent; nine-twelve months 13 per cent; Under £100,000 11½ per cent from Oct 9,1989. Deposits withdrawn for cash 5 per cent.

LONDON RECENT ISSUES

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

BASE LENDING RATES

[illegible]

FINANCIAL TIMES STOCK INDICES

	Sep 21	Sep 20	Sep 19	Sep 18	Sep 17	Sep 14	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs.	78.58	78.41	78.45	78.29	78.31	78.27	84.20	74.13	127.4	49.18
Fixed Interest	85.62	87.01	87.04	87.10	[illegible]	[illegible]	93.80	85.62	105.4	50.53
Ordinary	1537.3	1531.1	1576.1	1576.8	1606.1	1609.6	1958.3	1531.1	2008.6	49.4
Gold Mines	186.1	184.9	182.7	186.2	188.6	189.0	378.5	167.9	734.7	43.5
FT-Act All Share	977.59	976.33	1000.73	1001.50	1015.99	1017.95	1226.83	[illegible]	1238.57	61.92
FT-SE 100	2023.5	2016.9	2065.8	2064.0	2094.3	2093.8	2463.7	2016.9	2463.7	986.9

LONDON SHARE SERVICE

BRITISH FUNDS

[illegible]

BRITISH FUNDS—Contd

Index-Linked

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Contd

CANADIANS

[illegible]

Continued on next page

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of lines of stock	Fri Sep 21 1990: US Dollar Index	% chg ($) since 29/12/89	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/89	Gross Div. Yield	Thu Sep 20 1990: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Dollar Index: 1990 High	1990 Low	Year ago (approx)
Australia (79)	138.69	−8.4	111.41	120.01	113.74	111.34	−12.6	6.83	140.78	111.67	121.74	115.68	113.16	158.31	125.85	153.13
Austria (19)	190.69	+4.7	153.19	165.02	156.39	155.91	−2.5	1.75	197.51	156.69	170.80	162.30	162.11	285.63	190.69	154.24
Belgium (61)	129.59	−16.2	104.11	112.14	108.28	103.54	−23.7	5.59	132.01	104.72	114.14	108.47	105.64	160.02	129.59	138.87
Canada (119)	129.69	−14.6	104.16	112.22	106.35	108.28	−15.2	3.75	130.19	103.27	112.57	106.97	108.79	153.61	128.82	147.90
Denmark (33)	244.33	+0.9	196.29	211.44	200.39	199.64	−7.9	1.49	251.54	199.54	217.52	206.69	204.50	277.62	236.69	195.00
Finland (26)	106.10	−20.4	85.23	91.82	87.02	83.42	−26.2	3.28	108.43	86.01	93.77	89.10	85.07	152.29	106.10	127.08
France (122)	128.29	−17.8	103.07	111.01	105.21	106.26	−25.0	3.85	128.41	101.86	111.03	105.50	106.50	168.85	128.29	134.29
West Germany (92)	108.31	−12.5	87.01	93.74	88.83	88.83	−18.4	2.52	111.11	88.14	96.09	91.29	91.29	144.63	108.31	99.31
Hong Kong (48)	119.54	+2.1	96.03	103.44	98.04	119.11	+1.5	5.46	122.02	96.80	105.52	100.27	121.55	147.49	112.24	114.17
Ireland (17)	142.08	−21.7	114.14	122.96	116.53	117.56	−28.6	4.44	143.51	113.84	124.10	117.92	119.02	198.57	142.08	154.00
Italy (94)	81.82	−16.9	65.73	70.80	67.10	71.86	−22.9	3.32	83.22	66.01	71.96	68.37	73.18	109.25	81.82	93.27
Japan (454)	122.87	−37.8	98.71	106.33	100.76	106.33	−40.7	0.79	122.57	97.23	105.99	100.73	105.99	197.26	118.66	179.68
Malaysia (35)	202.57	−11.6	162.74	175.29	166.13	210.80	−11.4	2.89	207.16	164.33	179.13	170.22	215.30	250.89	195.23	202.17
Mexico (13)	504.45	+55.0	405.25	436.53	413.72	1611.87	+68.4	0.32	509.56	404.22	440.64	418.71	1616.79	561.41	324.53	318.31
Netherland (42)	132.71	−7.8	106.61	114.84	108.84	107.72	−14.2	5.28	132.91	105.44	114.93	109.22	107.98	149.03	130.43	128.84
New Zealand (17)	57.28	−20.5	46.02	49.57	46.98	49.57	−23.1	7.22	59.17	46.94	51.17	48.62	50.67	76.36	57.28	82.40
Norway (23)	259.65	+29.9	208.59	224.69	212.95	214.71	+20.0	1.48	264.61	209.90	228.82	217.43	218.73	276.79	202.34	185.41
Singapore (25)	157.84	−10.9	126.81	136.59	129.45	128.64	−17.1	3.25	160.39	127.23	138.70	131.79	130.50	209.24	156.96	166.09
South Africa (60)	163.80	−16.7	131.59	141.75	134.34	138.51	−8.9	4.18	164.78	130.71	142.49	135.40	138.53	251.39	163.80	156.73
Spain (42)	134.69	−17.4	108.20	116.56	110.46	100.35	−25.8	5.47	135.65	107.60	117.30	111.46	101.53	182.25	132.84	163.40
Sweden (34)	181.44	−5.5	145.76	157.02	148.81	155.25	−11.8	2.59	186.77	148.15	161.51	153.47	159.88	234.93	173.89	177.32
Switzerland (65)	89.06	−5.3	71.55	77.08	73.05	72.97	−18.9	2.91	89.46	70.97	77.36	73.52	73.21	109.77	88.75	89.73
United Kingdom (301)	148.77	−6.3	119.52	128.73	122.00	119.52	−18.1	5.82	150.27	119.20	129.93	123.46	119.20	176.18	139.87	153.54
USA (534)	125.52	−12.3	100.84	108.62	102.95	125.52	−12.3	3.92	125.63	99.66	108.64	103.24	125.63	148.95	123.62	140.99
Europe (971)	127.96	−10.1	102.80	110.73	104.95	103.77	−19.1	4.47	129.50	102.73	111.99	106.42	104.55	157.65	127.96	130.17
Nordic (116)	187.18	−0.1	150.37	161.98	153.51	150.31	−7.7	2.02	192.36	152.59	168.34	158.06	154.17	223.29	185.01	164.73
Pacific Basin (658)	123.19	−36.0	98.96	106.61	101.03	106.74	−39.0	1.21	123.09	97.64	106.44	101.15	106.59	192.75	119.53	176.22
Euro-Pacific (1629)	125.46	−27.3	100.79	108.56	102.89	106.21	−32.1	2.57	126.03	99.98	108.98	103.55	106.45	174.18	125.46	157.94
North America (653)	125.68	−12.4	100.97	108.78	103.10	124.41	−12.4	3.91	125.82	99.81	108.82	103.41	124.56	148.43	124.33	141.31
Europe Ex. UK (670)	114.57	−12.6	92.04	99.16	93.98	94.25	−19.9	3.54	116.11	92.11	100.43	95.43	95.64	145.62	114.57	115.20
Pacific Ex. Japan (204)	126.20	−6.5	101.39	109.23	103.51	108.56	−9.5	6.00	128.49	101.92	111.12	105.59	110.51	146.72	122.53	134.55
World Ex. US (1821)	126.20	−26.7	101.38	109.22	103.51	106.99	−31.2	2.63	126.78	100.57	109.64	104.18	107.24	173.77	126.20	157.68
World Ex. UK (2054)	122.65	−23.8	98.53	106.14	100.60	112.13	−26.2	2.75	122.96	97.54	106.33	101.04	112.39	162.00	121.96	150.39
World Ex. So. Af. (2295)	124.73	−22.3	100.20	107.95	102.30	112.67	−25.5	3.07	125.14	99.27	108.22	102.84	112.88	161.84	124.73	150.62
World Ex. Japan (1901)	127.30	−11.3	102.26	110.17	104.42	116.36	−14.9	4.22	128.06	101.60	110.77	105.26	116.87	151.59	127.30	137.19
The World Index (2355)	124.97	−22.3	100.39	108.15	102.50	112.84	−25.4	3.07	125.38	99.46	108.42	103.03	113.05	162.05	124.97	150.66

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

Constituent change: Deletion: Northern Star (Australia) (17/9).

LONDON SHARE SERVICE

BANKS, HP & LEASING

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
2,525.7	ABN Amro F15	£93¼	-3.7	8.5	4.9	Aug May	1567
1,778.5	ANZ SA1	184	-4.7	10.3	12.6	Feb July	1698
2,393.8	Abbey National 10p	198	-6.2	3.8	6.8	Apr Oct	5411
958.6	Allied Irish Ord.	148	-5.1	6.1	29.5	Dec July	1354
30.0	Anglo Irish	50	-3.8	8.4	30.4	Jan July	1355
117.6	Ansbacher (H.) 1p	63	-6.0	5.3	12.3	April	1624
657	[illegible]	£38¼	-3.9	3.4	9.5	May Mar	2202
1,396.4	Banco Bilbao Viz.	£13	-16.4	5.7	9.12	Dec June	-
497.6	Bank Ireland Ir£1	149	-2.6	6.8	29.5	July Dec	1360
134.4	Bank Leumi	£19½	....	-	-	-	1740
24.7	Bank Leumi (U.K.)	350	......	5.7	6.8	Mar Sep	1740
797.1	Bank Scotland	105	-2.8	5.8	30.4	Nov Jul	1742
95.8	Do. 9¼pc Irrd Pf	95¼	....	12.9	30.4	May Nov	1462
13.4	Bank of Wales	42	-4.5	8.9	30.4	Nov Jun	1743
4,764.8	Barclays £1	301	-6.8	8.7	20.8	Oct May	1756
5.90	Benchmark 20p	11	-8.3	9.1	9.4	May Oct	1902
40.7	Brown Shipley £1	255	-7.9	6.3	11.6	Jan Aug	1983
70.4	Cater Allen £1	297	-3.3	11.0	25.6	Jan. Aug	2081
13.3	Chancery	64	-16.9	18.8	25.6	Jan July	2102
375.4	Commerzbk DM10	£16¾	-4.5	3.7	27.5	May	1046
[illegible]	Dai Ichi KBk Y50	650	-9.6	0.5	4.7	June	3221
6,784.3	Deutsche Bk DM50	£212¾	-4.8	2.2	17.5	May	2345
172.1	Espirito Santo	£16	4.1	2.5	-	June	5187
274.1	First Nat. Fin. 10p	170	-5.6	10.2	9.7	Mar Aug	2571
42.6	FNFC 6.3pc Cv Pf	80	-3.3	9.5	25.6	July	2570
1,138.9	Fuji Bank Y50	729	-12.2	0.4	4.7	Dec June	1084
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Hire Purchase, Leasing, etc.

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BEERS, WINES & SPIRITS

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BUILDING, TIMBER, ROADS

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BUILDING, TIMBER, ROADS – Contd

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CHEMICALS, PLASTICS

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DRAPERY AND STORES

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ELECTRICALS

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ELECTRICALS – Contd

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ENGINEERING

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ENGINEERING – Contd

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FOOD, GROCERIES, ETC

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

HOTELS AND CATERERS

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INDUSTRIALS (Miscel.)

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INDUSTRIALS (Miscel.) – Contd

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

INSURANCES

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LEISURE

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MOTORS, AIRCRAFT TRADES

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial Vehicles

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

MOTORS, AIRCRAFT TRADES — Contd

Components

Market Cap. £m	Stock		Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
9.06	Abbey Panels		453	....	1.0	6.8	Sept Feb	1501
12.6	Airflow Streamlines	γ	147	-9.8	5.4	29.5	Jan July	1538
19.0	Bostrom 5p	γ	165	-2.9	4.6	9.4	May Nov	1438
413.8	Dowty 50p	β	168	-14.7	7.1	23.7	Mar Oct	2371
90.2	FR Group	β	122	-12.9	7.0	14.5	Dec. July	2627
99.7	Kwik-Fit Hldgs. 10p	β	62	-6.1	5.2	30.4	Nov Jun	3113
745.2	Lucas Inds.	α	108	-16.3	7.7	9.4	Jun Jan	3232
11.0	Do. Warrants	β	16	-15.8	—	—	—	3065
32.0	Mid-States 10p	γ	64	....	1.6	—	November	1845

Garages and Distributors

Market Cap. £m	Stock		Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
6.68	Alexanders 10p	γ	17	-22.7	7.8	15.1	March	1562
37.4	Appleyard 10p	β	80xd	-1.2	13.0	10.9	Oct Apr	1629
1.87	Bletchley Motor 20p	γ	63	-7.4	17.0	14.5	Oct Jun	1427
14.3	Caffyns 50p	β	438	-3.4	3.6	25.6	Jan. July	2031
14.4	Central Motor Auctns.	γ	180	....	4.0	20.8	October	4930
6.65	Cook (D.C.) Hldgs.	γ	28xd	-9.7	4.8	10.9	Feb Oct	2231
55.7	Cowie (T.) 5p	β	44	-15.4	12.7	6.8	Sep Apr	2260
9.69	Dagenham Motors 10p	γ	58	-12.1	12.1	30.4	Nov May	4954
9.92	Davenport Vernon 10p	γ	75	-3.8	6.2	25.6	Mar Jul	3912
5.58	Equity & Gen 5p		208	....	10.0	16.10	Dec Oct	2487
35.0	Evans Halshaw	β	170xd	-2.3	8.8	10.9	Oct May	2506

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY — Contd

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

INVESTMENT TRUST

[illegible]

INVESTMENT TRUST — Contd

[illegible]

INVESTMENT TRUST — Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS — Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

MINES — Contd

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

Market Cap. £m	Stock		Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
3.33	Oxford Virology 5p	γ	24	-4.0	—	—	—	3117
13.2	Paddington 5p		77	....	—	—	—	2011
5.10	Ramsden's (Harry)	γ	85	-3.4	7.1	9.7	January	5228
5.19	Rentaminster 5p	γ	31	-3.1	‡	—	Mar Oct	1645
1.26	Sempernova	γ	9	-30.8	—	—	—	5066
3.60	Sleepy Kids 5p	γ	18	-18.2	—	—	—	
	For Swanyard Studios see LEISURE							
0.42	Systems Connections	γ	2½	....	—	—	—	3941
6.72	Tomorrows Leisure 20p	γ	68	-4.8	2.3	—	October	4248
1.17	UPL Group 10p	γ	29	....	—	22.5	Dec. July	4362
9.63	Unit Group	γ	180	....	3.7	9.7	Jan Aug Oct	4357
4.63	Video Magic Leis. 1p	γ	28	....	9.5	26.1	Jan July	5071
2.16	Vista Ents 5p	γ	2½	-18.2	—	—	—	3994
4.28	Vizcaya Hldgs 5p	γ	8	....	—	—	—	4193
11.2	Wilton Group 1p	γ	2½	....	—	—	—	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- ‡ Price at time of suspension
- ‡ Not comparable
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date.
- ■ No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock c Cents e Redemption yield. f Flat yield. k Kenya. C Canadian E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xcd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1	γ	700	-12.5
Finlay Pkg. 5p	γ	51	....
Holt (Jos) 25p	γ	1305	-0.4

IRISH

Cap. 8½% Ln. 1991	£98	....
9pc Cap Ln. 1996	£92½	0.5
Fin. 13% 97/02	£108½	....
Arnotts	[illegible]	[illegible]
Carroll (P.J.)	115	4.5
Hall (R. & H.)	168	....
Hanson Hldgs.	58	....
IRG	158	....
United Drug	138	-3.5

TRADITIONAL OPTIONS

3-month call rates

[illegible]

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

FT Share Service

The following changes have been made to the FT Share Information Service:

Additions: Anglian Water 5⅛% Index-Linked Loan 2008 (Section: Water).

United Energy (Ord. & Warrants) (Oil & Gas).

Deletions: Gibbs & Dandy Ordinary shs.(Buildings).

4pm prices September 21

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	13⅝	AAR	.48	3.5	9	953	14	d12¾	13¾	+ ¼
9⅝	7¼	ACM n	1.01	13		128	8⅛	7¾	7⅞	– ⅛
11⅝	9¾	ACMIn	1.26	13.		708	9¾	9⅝	9⅝	+ ¼
9¼	6¾	ACM M	n1.01	15		481	7	6⅞	6⅞	
12⅛	10	ACMMM	1.50	13.		219	11⅝	11½	11½	
11½	9¼	ACM Sc	1.25	13.		1506	9⅝	9⅜	9½	+ ⅛
9⅛	7½	ACMSp	1.01	13		1271	8	d 7⅜	7⅝	
24⅝	14⅝	AL Lab	.16	.8	17	38	19¼	19	19	
5¼	1¼	AM Intl				902	1½	1⅜	1½	
23⅛	7	AM In pf	2	24.		21	8⅞	8½	8½	
107⅛	41½	AMR			9	3014	41⅞	d41⅛	41⅜	– ⅛
24⅝	22¼	ANR pf	2.12	9.1		2	23¼	23¼	23¼	– ½
4¼	2¾	ARX			10	34	3⅜	3¼	3¼	
72¼	42	ASA	3a	6.3		567	49¼	47⅞	47⅞	– ⅝
45⅝	30⅝	AbtLab	s.84	2.2	19	12580	39½	38	38¼	– ⅞
14⅞	11¼	Abitibi	g .50			66	13½	13⅜	13⅜	+ ¼
11⅝	5⅞	AcmeC	.40	6.7	7	49	6	5⅞	6	
32¾	18⅞	Acuson	s		24	444	28⅞	28¼	28⅜	– ⅛
18⅞	14⅛	AdaEx	2.08e	14.		183	15¼	15	15	– ¼
19⅛	10	Adobe				273	13¼	13	13¼	+ ¼
20¼	17⅝	Adob pf	1.84	10.		5	18	18	18	+ ⅛
21⅝	20	Adob pf	2.40	12.		7	20¼	20⅛	20¼	
17⅞	4⅞	AMD			22	1348	5⅝	5⅜	5½	– ⅛
32⅝	22½	AMD pf	3	13.		9	22⅝	22½	22½	
6¼	2⅝	Advest	.16	6.1	33	174	2¾	d 2½	2⅝	– ⅛
62½	40½	AetnLf	2.76	6.9	7	4284	41⅛	d39⅞	40⅛	– ¼
13¼	8¼	AffilPb	.24	2.7		734	9⅜	8⅞	8⅞	– ⅜
25	15⅝	Ahmans	.88	5.8	8	2804	15¾	d15¼	15¼	– ½
3½	1⅞	Aileen			7	7	2⅞	2⅞	2⅞	
61	43	AirPrd	1.44	3.2	11	1230	44⅞	44⅜	44⅞	+ ½
27	16⅝	AirFrt	s .30	1.7	10	1221	18	17¼	17⅞	– ⅛
24½	13⅞	Airgas			25	438	14½	d13¾	13⅞	– ¼
20¾	16½	Airlease	2.52	14.	9	32	18¼	18⅛	18¼	+ ⅛
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 45

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
67⅛	43½	Racal	.60e	1.4	22	486	43¾	d43¼	43½	−¼
100½	77¾	RalsPur	1.85	1.9	17	1591	96⅛	95¾	95⅞	−½
8⅛	5⅝	RangrO	.05e	.7	21	3677	8½	7⅞	8⅛	+
36	19¼	Raycm	.32	1.8		852	19¾	19¼	19½	−¼
22⅞	15	RJamF	.24	1.4	8	67	17⅜	17	17	−⅛
28½	18⅝	Rayonr	3.60	19.	5	148	19¼	18¾	18¾	−⅜
2⅞	1⅛	vjRaytc			2	9	1⅞	1¾	1¾	
65	57¾	Raythn	2.40	3.8	8	4282	64	63¼	63⅝	+½
27⅛	21	RdrDg n	.48	2.0	17	2189	24⅞	24½	24⅝	+¼
5	1	RdgBte				62	2⅛	2¼	2⅜	
18⅛	12½	REIT	1.42	11.	10	245	13⅜	13⅛	13¼	−⅛
7⅞	4⅝	RecnEq				312	5¼	5⅛	5⅛	
20	10½	Reebok	.30	2.9	7	4908	10⅝	d 9⅞	10½	−¾
12⅝	2½	Reece	.06j			36	3⅛	3⅛	3⅛	−⅛
½	5-32	Regal				67	11-32	11-32	11-32	
15⅜	9⅛	ReichTg	1.62	17	5	88	9⅝	d 8⅞	9	−⅛
7⅛	4⅜	RelGrp	.32	6.1		671	5⅜	5¼	5¼	−⅛
30⅛	19½	Repsol	n.65e	3.7		687	23	22½	22¾	−⅛
5	3⅞	RepGyp	.19t	5.4	88	8	3½	3½	3½	+⅛
52⅛	40	RepNY	1.32	3.4	121	611	38¾	d38½	38¾	−1¼
8⅜	1¼	Rexene				32	1⅝	1½	1½	
27⅛	14	RevRey	.80	5.8	6	39	14½	d13⅞	13⅞	−⅛
70	48½	ReyMt	1.80	2.7	9	5192	68⅝	66⅛	67⅜	−1½
67⅜	56¼	RP Ror n				1208	63	62¼	62⅝	−⅝
19	9¼	RhP pfA	1.60e	17.		18	9½	9¼	9¼	
3½	1⅛	RhnP wt				30	1⅛	1⅛	1¼	
22	10⅛	RhnPl	n1.60e	16.		54	10½	d10	10⅛	
41⅛	29½	RiteAid	.90	2.6	13	1021	32	31⅛	32	+⅛
11-32	3-64	RvrOak				14	9-128	9-128	9-128	+1-128
18½	10⅝	RobtHlf			10	107	11	10⅞	11	+¼
14⅛	7⅝	Robtsn				198	8	7⅝	7⅞	−¼
22⅛	16⅞	RochG	1.56	8.5	10	321	18⅜	17⅞	18⅛	+⅛
45⅛	25½	RochTl	1.48	5.4	14	284	26⅞	26½	26¾	+¼
22⅛	16¼	RckCtr	1.88	11.	16	298	17½	17⅛	17⅛	−⅜
28⅛	19¾	Rockwl	.96	3.4	10	5160	25⅞	25⅛	25⅞	+⅝

		Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge
	3	WrldCp				78	4⅝	4¼	4⅛	−⅛
	13⅛	WrldVl	1.94e	14.		38	14	13⅞	13⅞	
	35⅞	Wrigley	.98	2.8	15	359	45⅛	44¾	45	+⅛
	8¼	WylaLb	.28	2.8	9	365	10⅝	10	10	−1
	15	Wynns	.60	3.9	10	26	16	d15⅛	15½	−½
		−X−Y−Z−								
	37	Xerox	3	8.2	7	3308	37½	d36⅛	36⅞	−⅛
	45½	Xerox pf	4.13	9.0		19	45⅞	45⅞	45⅞	
	16½	XTRA	.72	4.0		13	18⅛	17⅞	18	+⅛
	16⅛	XTRA pf	1.94	12.		7	16⅛	16⅛	16⅛	+⅛
	1¼	Zapata				633	1½	1⅜	1⅜	+⅛
	6⅞	ZenithE				1129	6	6⅛	6⅛	−⅛
	13⅜	ZenNtl	.80	6.4	8	79	13⅛	12½	13⅛	+⅛
	4½	Zenix	.69	16.		249	5⅛	5	5	−⅛
	10¼	Zero	.40	2.8	11	607	10⅜	d10⅛	10⅜	−⅛
	24⅞	Zurnln	.76	2.2	15	621	35⅞	d34	34⅞	−1
	10⅛	Zweig	1.21e	11.		437	10⅞	10⅝	10⅝	
	8½	ZweigTl	.96	11.		1049	8⅝	8½	8⅝	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices September 21

NASDAQ NATIONAL MARKET

4pm prices September 21

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
WmSon s		14	498	16	14⅞	14⅞	−⅛
WilmTr	1.44	9	412	32½	d31¼	31½	−½
WiserO	.40	31	139	19⅛	18¾	18⅞	−⅛
Wolohn	.28b	7	162	13½	d12¾	12⅞	−⅛
WlvExp			301	8	7⅞	7⅞	−⅛
Wolv wt			58	4	3⅝	3⅝	−⅛
Worthg	.60	15	813	20	d18⅞	18⅞	+⅛
Wyman	.60		157	9½	9	9½	
−X−Y−Z−							
XL Dta		4	607	7⅛	6⅞	7	−⅛
XOMA			1385	16½	15½	16	−½
Xicor			1506	1⅝	1⅝	1½	+⅛
YanEnS	1.52	15	22	19	18	18½	+½
YelowF	.82	41	2904	20⅛	d19⅛	20⅛	+⅛
YorkRs		11	624	9⅛	9	9⅛	+⅛

MONDAY INTERVIEW

Builder of financial bridges

Michel Camdessus, managing director of the IMF, talks to Peter Riddell

Mr Michel Camdessus, the managing director of the International Monetary Fund, has a gaunt sculpture by his daughter in his Washington office. He has named the figure the unknown economist – a suitable irony by the head of an institution which has been widely criticised round the world as the faceless harbinger of austerity.

Yet in his nearly four years at the IMF, Mr Camdessus has sought both to make it better understood and to assert its central place in the international financial system. His style is naturally open; his occasionally slightly hesitant English does not disguise his acuteness and precision.

When Mr Camdessus took over in early 1987, the IMF had just emerged from the first stages of the Third World debt crisis. But the Fund was facing a challenge in its role as co-ordinator of economic policies from the Group of Seven leading industrial countries.

As he prepared for the current IMF and World Bank annual meetings, Mr Camdessus's message was that the Fund is very much at the centre of the stage.

"More and more we are going to monitor a very diversified world. We will have the major pillars, the US, EC and Japan. But we'll also have what was so far a kind of black hole in the system – eastern countries and the Soviet Union. There will be a diversified universe, not unified by the dollar or a tripolar system. And the centre is the IMF. The work of the institution at the centre will grow in importance."

The regular meetings of the G7 ministers still determine most key financial decisions. But Mr Camdessus has ensured that the IMF is involved. "We have a permanent dialogue with the major countries on their economic policies."

For a very long time, he acknowledges, there was "criticism of the asymmetry of surveillance and the conditionality of the Fund – what you did with the US was not relevant as you didn't have leverage over their policies (as a non-borrower).

"Now the G7 have much tighter, more regular surveillance. Two or three times a year we visit them, review their policies. And we put in motion the system of peer pressure among themselves."

This surveillance, Mr Camdessus stresses, is "is also a way of establishing a bridge between the G7 and our global surveillance. The G7 work on co-ordination of policies is a significant contribution to the evolution of the international monetary system. It is part of the unfinished business of how to correct the disorderly floating of exchange rates. We have discovered that there are many things that matter at least equally: fiscal policies, structural policies and broader surveillance of all of them."

Mr Camdessus sees the Fund as not just responding to immediate financial problems but also as assisting in long-term adjustment. "We had to find ways of putting more emphasis on the need for sustained growth, while protecting the world against inflation. While trying to have a good control on demand, we should put more emphasis on supply and structural adjustment for growth."

His views developed during the early 1980s when he served as the Finance Ministry's senior civil servant during the hectic policy changes of the first Mitterrand term. During this period the French dash for growth led to three devaluations of the franc. He acknowledges "the mistakes I was associated with and possibly the successes here or there."

He has little sympathy with critics who attack the IMF for being anti-growth. He accepts that IMF programmes are "very tough, harsh. This is basically because countries come too late. Of course if a country comes after having exhausted all possibilities of external support, due to the weakness of its policies, then you are faced with serious disequilibria. There will be all sorts of impediments to growth, sky-rocketing inflation, tremendous budget deficits and structural impediments and misallocation of resources. Our programmes involve adjustment of both structures and macro-economic imbalances."

Mr Camdessus is similarly sceptical about those who argue that the IMF cannot promote private enterprise in eastern Europe because it solely deals with governments.

"What we are looking at with eastern countries is not a 19th century-like *laisser faire* but a new and better governance. The modern economy cannot work without government but it needs a new form of government, not intervening on matters well dealt with by the private sector, but making sure that competition works effectively and that a financial structure is well in place. You simultaneously have to reduce the size and intervention of government and to improve its interventions where they are indispensable.

"We are helped in handling the problems of eastern countries by our experience with the rest of the world. Latin American countries were said not to be socialist but they were tremendously *dirigiste* – and nothing was as similar to Poland as Argentina. The same kinds of rigidity, of maladjustment, were quite widespread."

Mr Camdessus is clearly pleased that the G7 heads of government decided at their Houston summit in July to ask the IMF to convene an international study of the needs of the Soviet economy and how the West might assist.

He acknowledges the difficulties involved, in spite of "the full contribution of the Soviets, in gathering the best possible information. But it is very little because very little is available which could now be efficiently utilised in handling the process of reform. The system has not been attentive to the elements for managing a market economy."

A Soviet group is attending the meetings as "special invitees" and its membership of the IMF is now a live issue, though there has been no official application yet. Mr Camdessus notes that, "this question could be raised at any time. Nobody has forgotten here that the Soviet Union was a founder member of the Fund, and was vice-president of the Bretton Woods conference. History has delayed a little bit their membership."

To balance these challenges, Mr Camdessus has been preoccupied with the long standing debt problem, about which he is cautiously optimistic.

"We have now equipped ourselves with the Brady strategy [named after the US Treasury Secretary and launched 18 months ago to deal with commercial bank debt], which if fully applied by countries can really transform the debt crisis into a manageable problem.

"The experience we have had with Mexico, the Philippines, Costa Rica, Morocco – and tomorrow possibly Brazil and Argentina – gives me confidence that it can work. I would be happy if we were able to convince the banking community to see there a window of opportunity to normalise relations with debtors."

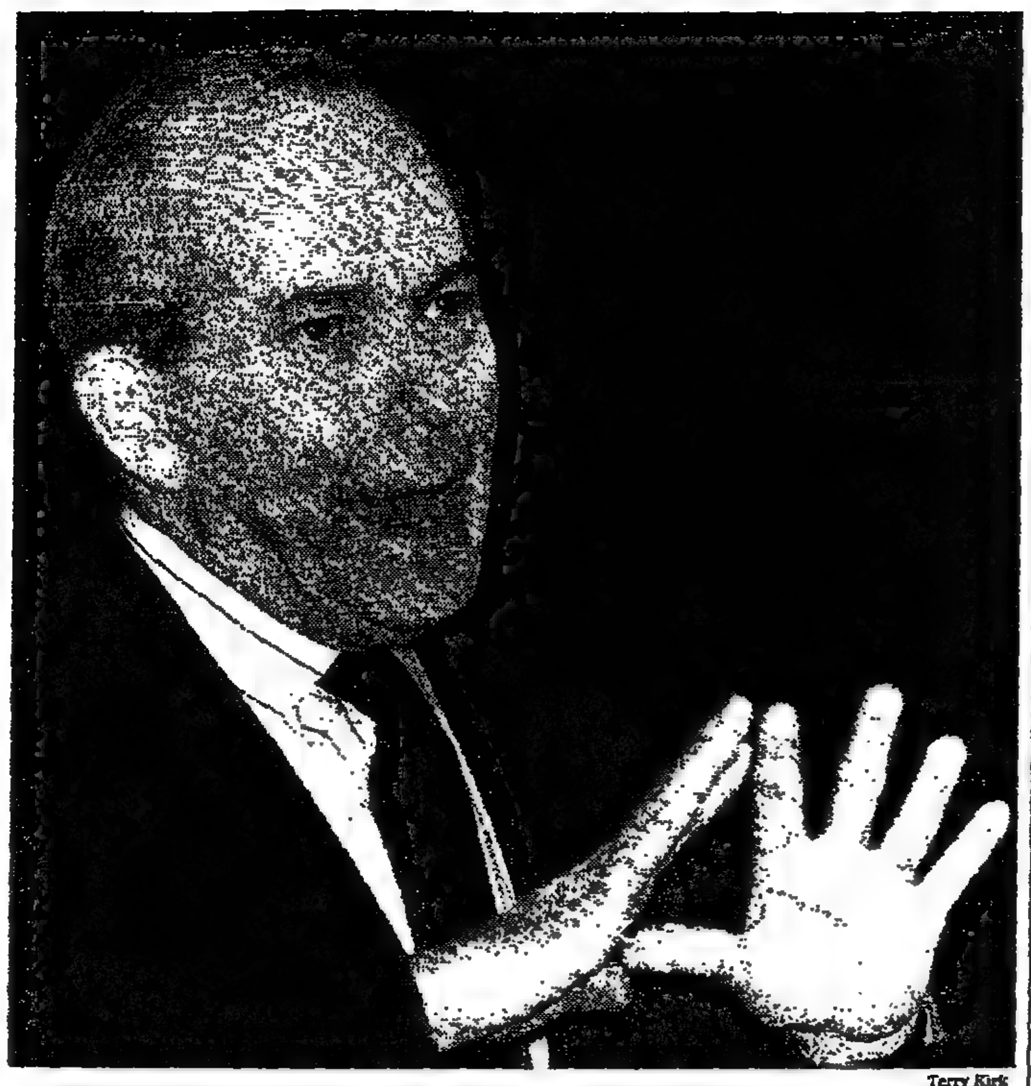
The Gulf crisis has, of course, had a wide-ranging effect on the IMF. "With the major exception of three countries which are net gainers – Mexico, Venezuela, Nigeria – the IMF has no programmes in general with beneficiaries (of the rise in oil prices). But almost 50 countries have programmes with the IMF. For them this is a shock, more or less important according to the structure of their balance of payments. People are urging us to create a new oil facility with low conditionality and so on – what we did in the past. We will not do that. We do not believe this can really help the countries handle the problem.

"There is a big contrast with the first oil shock of the mid-1970s. Then the IMF was "confronted with a quadrupling in the price of oil, but now this is not the case. Then there were only 10 countries with IMF programmes, now we have almost 50. So the question is completely different. We are in a situation allowing us to try to tackle the programmes in a more conditional fashion, to preserve and, if necessary, renegotiate programmes, while maintaining the countries on their track of adjustment."

Many wonder whether two multilateral institutions are still needed. Disclaiming any intention of taking over the World Bank, Mr Camdessus sees their work as complementary.

"The *founding fathers* were well inspired – a very precise, clear constitution for the IMF which will remain a small institution dealing with crises, with structural adjustment growth, centring its action on the balance of payments, providing countries with sensible catalysing elements for medium and short-term financing. The World Bank would continue having its formidable longer-term sectoral responsibilities."

There is no doubt which body Mr Camdessus sees at the heart of the world financial system.



Terry Kirk

'We are going to monitor a very diversified world'

PERSONAL FILE

1933 Born in Bayonne, France. Educated at the University of Paris with postgraduate degrees in economics at the Institute of Political Studies and the National School of Administration.

1960 Joined the Treasury in the Ministry of Finance and Economic Policies. In the late 1970s and early 1980s, he chaired the Paris Club of creditor nations for six years.

1982 Director of the ministry.

1984 Appointed governor of the Bank of France.

1987 Appointed managing director of the IMF.

It is no time to be singing in the rain

JOHN PLENDER

Bankers, according to the old joke, are people who lend you an umbrella when the sun is shining and ask for it back at the first hint of rain. Now, it seems, the joke has been relegated to a mere half-truth. Assiduous readers of the Financial Times will have observed last week that Japanese banks have been going cap in hand to their own customers pleading for capital. Thus have centuries of financial custom and practice been turned on their head.

Nor is this a case of the Japanese being inscrutably ethnic. Chase Manhattan may not have asked specifically for an umbrella, but when a bank denies that it is having difficulty refinancing its IOUs, as the big US bank did on Friday, the markets tend to regard the statement with the scepticism they otherwise reserve for government denials of imminent devaluation.

Indeed, bankers everywhere are feeling the pain. Not least at Midland Bank, which saw its shares *fall* by 12 per cent on Thursday for no better reason than that when people are nervous about the market they are even more nervous about the ailing British clearer. Alas, poor Midland; and it is little consolation to its battle weary executives that the much richer Industrial Bank of Japan saw its share price fall 10 per cent on the same day.

Sympathy for bankers is an indulgence that many will feel inclined to forgo just for the moment. Yet the bankers' problem is one that sooner or later will affect us all, since it has the capacity to turn a mild recession into something worse. So why is it that the stock markets are so nervous about the banks? And what has caused the conventional wisdom about bankers to start falling apart?

The balance of power between banks and their corporate customers has shifted partly because large companies across the world have enjoyed several years of unbroken profitability. But while corporate balance sheets have been strengthened, bank balance sheets have remained under pressure. Not only do the rating agencies now apply lower ratings to the big banks than to many of their clients; the markets have access to as much financial data about the world's largest companies as the banking community. Consequently it pays the industrial giants to cut out the banking middleman and go direct to the markets for funds.

The outcome is that the banks have lost much of their most creditworthy business just when they confront increased competition as a result of liberalisation. There are simply too many banks chasing too few profits. Against that background the only way individual banks can hope to make an adequate return on capital is to take greater risks – something that spells disaster for banks in the aggregate.

That is how Chase came to lend to flamboyant New York real estate man Donald Trump; how Midland took a premature and costly gamble on falling interest rates, while expanding its corporate lending at a heady pace; why Japanese banks have racked up a reported $4bn of non-performing loans in US leveraged buy-outs; and why Sumitomo Bank financed textile trader Itoman on its costly borrowing binge in the Japanese property market. When the going was good the borrowers all appeared to have the answer to the bankers' prayer. But not any more.

The consequences can be seen in the present pattern of share prices. Last week in the UK the cash-rich enjoyed relative strength, while the friends of the financial engineers were savaged by bears. The acquisitive industrial materials concern Cookson Group, debt-laden property developer Rosehaugh and the ambitious Beazer construction group were among the worst casualties – as were their bankers.

At times like this the financial community is not kind to those who look for fresh finance. But will the industrial community be any more charitable to financiers who come knocking on their door, as the Japanese banks have done? Maybe, since industrialists have not yet been trained to deny people umbrellas. But some might wonder whether it is sensible to require banks to strengthen their capital ratios, as the Bank for International Settlements now requires, when the banks' profits are being eroded by increased competition. More capital chasing dwindling profits will simply increase the temptation for the more hard-pressed to take even bigger risks. Others will be tempted to contract their balance sheets at precisely the moment that recession is applying a vice of its own.

That in turn raises an interesting question about the shareholding relationship between banks and industry. At present, the authorities protect commercial banks from takeover by non-banks on the ground that non-bank owners might be less sensitive to the interests of depositors. Yet the history of the past decade suggests that the reverse is likely to be true: General Electric, Marks & Spencer and Toyota have stronger balance sheets and better management than their bankers. Would it not make more sense for the cash-rich industrialists and retailers to recapitalise the improvident bankers via takeovers?

Rather them than the taxpayer, when governments are forced to nationalise the banks that founder. But central banking habits die hard. The prudent taxpayer should start building an ark.

Half-baked proposals based on neo-libertarian fantasies

Micheal Prowse on the welfare state

Suppose Neville Chamberlain had refused to appease Hitler and the Second World War had been avoided. The social solidarity created by total war would not have occurred; the Labour Party would probably not have won a landslide victory in 1945. What kind of welfare state would the UK have created? Would nearly all hospitals be publicly owned? Would most pupils be state-educated?

These may appear irritatingly hypothetical questions. But they do have relevance because a vocal element of the Conservative Party would like to see the socialist legacy of the 1940s completely erased during the 1990s. They favour a return to 19th century *laisser faire* and Samuel Smiles's self-help.

The tendency is best represented by the No Turning Back group of right-wing Tory MPs – a faction which includes Mr Peter Lilley, the Trade Secretary, and several junior ministers. The group's latest pamphlet, Choice and Responsibility: the Enabling State, urges the government to intensify the assault on the "very concept of individual dependence on state provision of health care, education and social security."

In a strange way the pamphlet invites ridicule. It seriously suggests that Britain should draw inspiration from Hong Kong and Singapore and seek a future as a "kind of free port linking Europe and the world..." It describes the achievements of the Thatcher government as "virtually unparalleled in British political history". It defends privatisation as a general policy on the grounds that British Airways offers a better service.

Factual errors are even more alarming. The MPs claim that: "In 1979 the British government spent a higher proportion of Gross Domestic Product than any of those who are now our European Community partners. Now we spend less."

The truth is rather different. The Tories did not inherit a European Leviathan from Labour. OECD figures show that in 1979 public spending as a percentage of GDP was lower in Britain than in West Germany, France, Italy, Belgium, Denmark, Ireland and the Netherlands. In most cases the gap was considerable.

Yet in spite of its inaccuracy, hyperbole and naivety, the No Turning Back group's pamphlet poses valid questions. The welfare state of the 1940s has no God-given right of existence. Reforms which genuinely offer the prospect of better quality at lower prices deserve serious consideration.

The MPs, however, appear to start from the assumption that state welfare can be justified only by arguments about social justice – arguments which in their view are thoroughly misguided. They seem wholly unaware that there are many technical reasons why heavy state involvement in welfare is necessary. For the detailed arguments see The Economics of the Welfare State by Dr Nicholas Barr (Weidenfeld and Nicolson 1987).

To take one example, the No Turning Back group advocates a big extension of private insurance to cover the risk of unemployment. But it is no accident that private markets have not evolved in this field even in the US. Private insurance only works well in the absence (among other preconditions) of "moral hazard": when policyholders cannot influence the likelihood, timing or magnitude of claims.

But the way a person behaves can greatly influence the risk of redundancy and the duration of unemployment. A subsidiary problem is that the risks insured are not independent: claims are likely to be unacceptably bunched because unemployment rises and falls according to the nation's macro-economic health.

Similar technical problems exist in most other parts of the welfare state. Public sectors throughout the developed world play a large role in health care, education, pensions and so forth not because they are gripped by an outdated Marxist ideology but because they can often perform these tasks more efficiently than private markets.

Welfare states can and will evolve, but the search for increased efficiency is probably best pursued within a public sector context. This, after all, is the approach favoured by moderate Tories, such as Mr Kenneth Clarke, the Health Secretary.

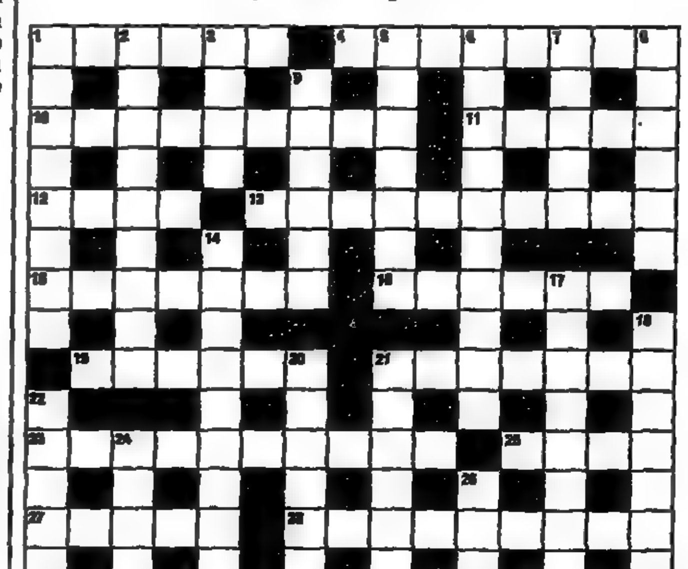
European considerations, which the No Turning Back group wilfully ignores, only reinforce this conclusion. It is simply not credible to argue that Britain has a future as Europe's free market Hong Kong. Economic and political integration within the European Community is bound to accelerate. The UK thus needs to create education, health and social security systems that mesh easily with those on the Continent – which are invariably public sector run.

Half-baked proposals based on the neo-libertarian fantasies of US think-tanks (which are largely ignored in Washington) no longer serve a useful purpose. If the No Turning Back group wants to make a serious contribution, it should send fact-finding missions to the capitals which count – Bonn, Paris, and Brussels.

JOTTER PAD

CROSSWORD

No.7,349 Set by DANTE



ACROSS

1 To tease a poor lad is ill mannered (6)
4 False profession (8)
10 They spend their time together (4-5)
11 Pompous colonel is an old gasbag (5)
12 It may hold the garden spray (4)
13 Parties of runners? (10)
15 The personification of cunning (7)
16 Ancient Greeks were riddled by it (6)
19 Dormant fish turned into a snake (6)
21 This turns out to sum up Panama, for example (7)
23 Cowardly sailor gets fever (6,4)
25 Juliet's town is just not on for her (4)
27 Wines for import and export (5)
28 Timber which may be put to striking use? (9)
29 To caress in a most lascivious way (8)
30 Listener following close win (6)

DOWN

1 Hope for the lost and sick (8)
2 Sweets that score highly? (5-4)
3 Fabric that's stiff or limp (4)
5 Object's to Ernest's replacement (7)
6 Set meal and free bed at hotel (5,5)
7 They are driven to join things (5)
8 Reveal an outdated attitude (6)
9 Wait for a race to finish (6)
14 Runners – so research reveals (10)
17 On board the first lieutenant may be most important (6,3)
18 One naturally separated from the rest of humanity (8)
20 They took over from the night shift (7)
21 Egg – how nice it may be scrambled (6)
22 Limited in one's outlook (6)
24 Grub is right at the centre of a burning issue (5)
26 Whisky drinkers may say it is just a question of time (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday October 6.

FINANCIAL TIMES SURVEY

THE WORLD ECONOMY

SECTION III

Monday September 24 1990

The Gulf crisis is a reminder that growth and prosperity have fragile foundations. But even before Iraq's invasion of Kuwait, there were signs of tension in the global economy, tempering the euphoria that followed communism's collapse, writes **Peter Norman**

Back to earth with a bump

Mr Saddam Hussein has brought the world economy back to earth with a bump.

Iraq's invasion of Kuwait at the beginning of August has put on hold hopes that the *1990s might usher in a new* world order, founded in the *eclipse of communism and* generating prosperity in which all mankind might share.

Instead of considering how best to use the "peace dividend" arising from the decline in east-west tension, policy makers are again having to wrestle with the dislocations of *an oil supply shortfall and the* imponderables of conflict between nations.

From an economic point of view, however, the euphoria that greeted the new decade was beginning to look *tarnished well before the Iraqi* President launched his tanks against Kuwait.

● Inflationary pressures in the industrialised world have been stubborn, despite continued adherence to tight monetary policies and a gradual slowdown in economic growth.

● *Financial* markets, especially in the US and Japan, have shown increasing signs of fragility.

● Long term bond rates rose sharply during the winter, highlighting the *problem of* insufficient world savings and casting doubt on future investment growth.

● The liberalisation of eastern Europe – although one of the most uplifting episodes in the *history of mankind since the* Second World War – has exposed a raft of economic problems as the Soviet Union and its former eastern bloc satellites set out along the uncharted path to a market economy.

Over the past decade, there *has been uneven progress in* solving the seemingly intractable problems of poverty, population explosion and indebtedness in many parts of the Third World.

More recently, unresolved *differences among the world's* major powers over agricultural subsidies have highlighted how protectionist pressures continued to threaten prosperity in industrialised and developing countries alike.

Even in the *24* wealthy industrialised member states of *the Organisation for Economic* Co-operation and Development, a total of 25m people are unemployed.

Yet before the crisis in the Middle East, it was possible to give the world economy the benefit of the doubt.

Growth was in its eighth consecutive year, promoted by enhanced consultation and *co-operation among economic* policy makers in the leading industrial countries of the Group of Seven.

Imaginative initiatives such as *the 1992* programme for a barrier free market in the *European Community, the creation* of a free trade area between the US and Canada and the reunification of the two Germanies acted as an extra spur to business confidence.

Above all, the free market ethos appeared decisively to have gained the upper hand over state control. Nations deregulated and modernised their economic structures to tap the capital that flowed around the globe, *spreading growth* and prosperity.

President Saddam's demonstration that the world is still a dangerous place has eclipsed rather than suppressed these positive aspects of the world *economy*.

Indeed, it is important to remember that the calculations and extrapolations of economists point to slowdown, not recession, as a result of events in the Middle East.

The increase in the oil price from July's low of around $16 a barrel will add to inflation. But providing there is not a serious escalation of the crisis, most nations do not seem to be threatened by recession or "stagflation" – *the mix of no* growth and high inflation – *that afflicted the world after* the two oil crises of 1973 and 1979.

Oil was cheap before the latest crisis – economists calculate that oil halved in value between 1980 and this summer *in terms of purchasing power* of manufactured goods – and most nations had reduced their dependence on imported oil compared with the late 1970s.

Moreover, emergency reserves are plentiful: the *OECD* countries have sufficient stocks of oil to satisfy *demand for 99 days*.

The International Monetary Fund has calculated that if oil prices stabilise at $25 a barrel, the industrial countries as a group could expect growth to be cut by around ¼ of a percentage point this year and next, while consumer price inflation would increase beyond *forecast levels* by around ¼ point this year and between ½ and ¾ points in 1991.

Such forecasts may be too sanguine. The oil price could settle at a higher level. Nobody *can tell at this stage what* impact the problems in the Middle East will have on business confidence.

However, if the IMF calculations turn out to be valid, they could mean growth in the *OECD* slowing to around 2¼ per cent this year and next and *inflation rising to around 5 per* cent.

The outlook for the developing world is less favourable.

Although as a group, developing nations are net oil exporters, they now account for 28 per cent of total world oil consumption: up from *18* per cent in 1973.

Only 11 developing nations – countries such as Mexico, Venezuela and Nigeria – will gain from substantially higher prices. Many oil importing countries in *Africa, the Caribbean* and central America will *lose directly*.

As the refugee camps near Jordan's border with Iraq bear witness, other countries such as Egypt, India, Jordan, Pakistan and South Korea will suffer indirectly through the loss of *expatriate workers' remittances* from the Middle East.

The newly democratised nations of eastern Europe will be especially hard hit.

They depend almost entirely on imported oil for their needs, use more energy per unit of output than the advanced industrial nations and from *next year will have to use* scarce hard currency to pay for their imports from the Soviet Union after the present system of barter and subsidy ends.

It is therefore clear that some nations will cope better than others and that the problems facing policy makers will *grow*.

Among the big industrial powers, Japan and Germany have the advantage of strong growth, which in Germany's case is helping to offset some of the unexpectedly heavy *financial and social burdens of* economic union with east Germany.

The Gulf crisis has caught the US, in particular, in an economically enfeebled state. Growth in the second quarter was down to an anaemic 1.2 per cent *annual rate, yet* underlying inflation continues to cause concern.

The military build-up in the Middle East will add to the *nation's budgetary problems* while the crisis in the savings and loans sector is a running sore for both the public and financial sectors of the economy.

Common sense suggests that *it is better for the world economy* to face a jolt such as the present Gulf crisis in a unsynchronised state.

Economic slowdowns such as those being experienced by the US, Britain or Canada are *more manageable if other* regions such as continental Europe and Japan are growing strongly and providing strong demand for the laggards' imported goods.

But a big question facing policy *makers is whether the* financial markets will accept the implications of economic divergence calmly.

Lower interest rates are part of the US Administration's economic agenda.

Most other large nations want to keep monetary policy tight, with Japan and Germany thought more likely to raise interest rates than lower them in the wake of higher oil prices.

The world's currency markets have been relatively calm in recent months. They have appeared to accept that the big industrial nations have made it their priority to limit inflation.

If this perception is eroded – *particularly in the case of* the US – the way could be open to renewed international financial turbulence.

The FT's last three annual surveys of the World Economy painted an increasingly upbeat assessments of economic trends, and yet each was followed *by serious dislocations* in financial markets. This survey has been written against a chequered international background in which sombre hues predominate.

Over the past decade, the G7 *and institutions such as the* the IMF and World Bank have greatly increased their ability to manage economic crises. These skills could prove necessary in the months and years ahead.

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Editorial Production: Andrew Slade

WORLD ECONOMY 2

Peter Norman assesses the economic impact of the Gulf crisis

An upset, but not a shock

IF NOTHING else, Iraq's invasion of Kuwait has provided full employment for the economics profession.

Computer models have been working overtime to assess the extent of the dislocation engendered by President Saddam Hussein's actions. The conclusions have been of some comfort to the industrialised world, but less so elsewhere.

For the 24 industrialised nations of the Organisation for Economic Co-operation and Development (OECD), the foreseeable economic repercussions of the crisis and the loss through embargo of Iraqi and Kuwaiti oil exports constitute an upset rather than a shock.

In non-oil producing developing nations, some of the rapidly growing, newly industrialising countries of south-east Asia and the nascent democracies of eastern Europe, the strains will be more severe.

Less quantifiably, the levy imposed through increased oil prices on the world's consumers could exacerbate a growing shortage of world savings. The impact on business confidence of the subsequent fall in share and bond prices remains uncertain. There are also fears of protectionism, particularly if the crisis leads to job losses in the industrial countries.

At a local level, the Iraqi invasion of Kuwait has dealt a severe blow to the hopes of other Gulf states to attract inward investment or develop their financial centres.

Iraq and Kuwait produced around 4.6m barrels per day of oil last year, or 7.3 per cent of global production. Matters obviously would be grimmer if war in the Gulf caused the disruption or destruction of Saudi Arabia's 5.5m b/d oil output.

THE OIL MARKET (1989)

Production	million bpd	% share	Consumption	million bpd	% share
OPEC	23.2	36.5	**North America**	18.2	28.1
Saudi Arabia*	5.5	8.6	US	16.6	25.6
Iran	2.9	4.6	Canada	1.7	2.5
Iraq	2.8	4.5	**West Europe**	12.5	19.3
United Arab Emirates	2.1	3.3	W Germany	2.3	3.5
Venezuela	2.0	3.2	Italy	1.9	3.0
Kuwait*	1.8	2.8	France	1.9	2.9
Nigeria	1.6	2.6	UK	1.7	2.6
Indonesia	1.4	2.2	Spain	1.0	1.5
Algeria	1.2	1.8	Netherlands	0.7	1.1
Libya	1.1	1.8	Belgium & Luxembourg	0.5	0.8
Non-OPEC	40.4	63.5	**Asia**	12.2	18.9
USSR	12.5	19.7	Japan	5.0	7.5
US	9.2	14.0	China	2.4	3.8
Mexico	2.9	4.6	South Korea	0.8	1.3
China	2.8	4.5	Taiwan	0.5	0.8
UK	1.9	3.0	**USSR & Eastern Europe**	11.0	17.0
Canada	1.7	2.6	USSR	8.8	14.0
Norway	1.5	2.4	Latin America	5.3	8.2
Egypt	0.9	1.4	Middle East	2.9	4.5
India	0.7	1.1	Africa	1.8	2.8
Brazil	0.6	1.0	Australasia	0.8	1.2
Total	63.6	100.0	**Total**	64.7	100.0

*Includes Neutral Zone. Note: Differences between world production and consumption are accounted for by stock changes and statistical differences

Source: BP Statistical Review of World Energy

Increases in oil prices will push up inflation

But projections of "worst case scenarios" suggest that the world would not suffer as greatly as in the two previous oil crises.

One recent study by British economist Mr Douglas McWilliams and the Petroleum Economist magazine concludes that neither a major military conflict over Kuwait nor the west backing down and allowing Iraq to dominate the Gulf region would cost the world as dear as the oil crisis of the mid-1970s, when the cumulative loss of growth was 7 per cent, or that of 1979-82, when the growth loss was 5 per cent.

Another analysis from the Economist Intelligence Unit suggests that conflict in the Gulf would produce a short, sharp oil supply shock with higher inflation, especially if Saudi, Iraqi and Kuwaiti oil installations were damaged. But the EIU concludes that the world would be spared recession and, providing the crisis were over in six months, could look forward to a strong recovery from 1992.

The key to both of these relatively sanguine projections is the sharp fall in world dependence on imported oil from the Organisation of Petroleum Exporting Countries (OPEC).

Oil consumption in OECD member states has fallen relative to economic activity by almost 30 per cent since 1980. The sharp oil price increase during the second oil crisis gave renewed impetus to conservation efforts and the growth of other forms of energy output.

Cheaper oil after 1986 and renewed world economic growth reversed some of these trends, notably in the US. But the world, and particularly Japan, has learned that it need not be as dependent on oil as in the past. Although Japan has practically no indigenous oil supplies, it imports less energy as a percentage of gross national product than the US.

These efforts, together with a major build-up of oil stocks in consuming countries, the absence of super power tension over the Gulf crisis and the decision of Saudi Arabia and other OPEC nations to pump more oil, have so far helped limit the impact of the crisis on the oil price.

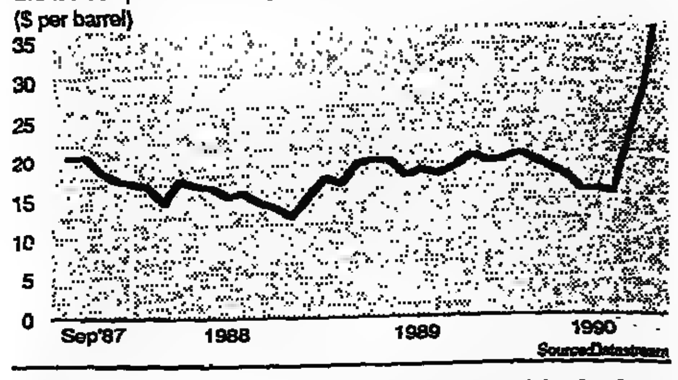
Since the invasion of Kuwait, the oil price has fluctuated between $25-$30 per barrel against $16 in July. The oil price chosen by most economists when guessing the likely impact of a marked worsening of the crisis has been $40 a barrel, against a peak of $53 at 1990 prices during the second oil crisis of 1979–82.

On the assumption that governments do not cut public spending in real terms to offset the increased inflationary impact of the oil price rise, OECD calculations suggest a rise in the oil price to $25 a barrel could knock perhaps one percentage point off US growth over two years, 1.2 points off European growth and 1.5 points off Japanese growth in the period.

The effect on inflation would show up sooner. According to OECD models, a $9 a barrel increase in the average international oil price adds about 1.5 percentage points to the domestic demand deflator of its 24 member nations over a 12 month period. Inflation, on this measure, would be boosted by 0.9 points in the US, 1.5 points in Japan and 2.1 points in Europe.

Real oil price

Brent crude price deflated by industrialised Countries Export Price Index ($ per barrel)



These developments would amount to an upset rather than a disaster for most industrial economies. Japan and continental Europe entered the crisis with growth strong. The major English speaking economies – the US, Britain and Canada – look more vulnerable because their economies have already been slowed by tough counter-inflationary monetary policies.

But the US, which is shouldering the main military burden in the Gulf, still recorded year on year growth of 1.2 per cent in the second quarter. It has other problems in the shape of a fragile financial sector and a huge and growing budget deficit. If it enters recession, higher oil prices will be only one of many factors behind the move.

Outside the main industrialised countries, there would be some winners from the oil price rise. It could prove a boon for Soviet economy, providing the USSR has the organisational capacity to exploit the windfall. Mexico, Venezuela, Indonesia and Nigeria should also benefit.

Elsewhere, however, higher oil prices would hit the non-oil developing world, the newly industrialising countries and eastern Europe.

Demand for oil in the developing nations increased by 18 per cent between 1985-89: twice the 9 per cent growth of the industrial world.

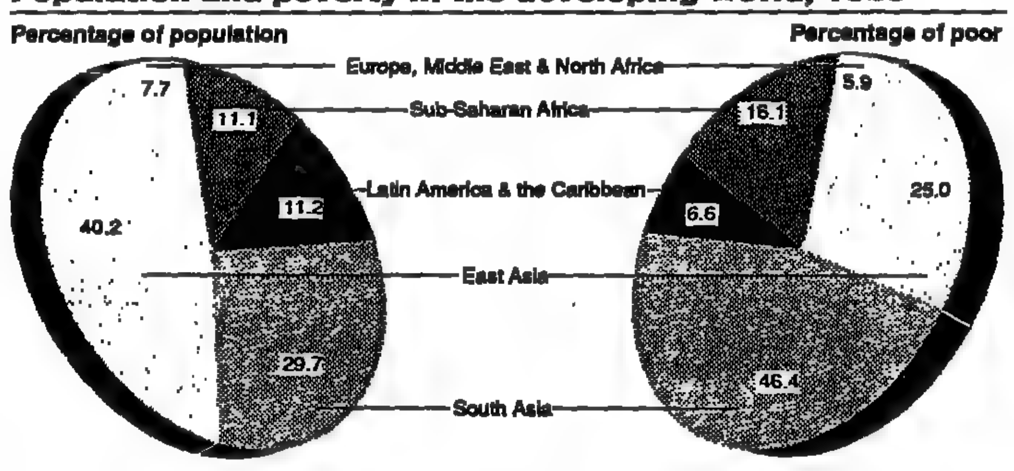
Eastern Europe is almost totally dependent on oil imports and will soon have to start paying market prices for Soviet oil following the breakdown of barter arrangements of Comecon. Moreover, eastern Europe is a wasteful energy user, with energy use per unit of output ranging from 1.5 times average OECD levels in Hungary to 2.7 times in Romania.

As with the oil crises of the 1970s, weaker economies stand to suffer most from developments in the Gulf. They face additional problems because of the world savings' shortage.

Japan, West Germany and, to a lesser extent, the US have been important exporters of investment capital and will be losers from the oil price rise. The oil exporting countries for their part will need their increased oil revenues for defence and development.

This is bad news in a world where strong investment in the industrial countries, reconstruction in eastern Europe and continuing development needs in the Third World have increased the calls on global savings. The upshot could be higher real interest rates for some time to come.

Population and poverty in the developing world, 1985



Source: The World Bank

Michael Holman on the world's poor

More effort needed to tackle poverty

POVERTY, it is said, has been always with us. It is just possible, however, that in the 1990s the 'haves' will consider the plight of the 'have-nots' with something more than humanitarian concern.

Self-interest is a more powerful sentiment than charity; and the Governments and electorates of industrialised countries are discovering that Third World poverty can have an adverse bearing on First World living standards.

Whether this growing awareness will help persuade policy makers to make greater efforts to tackle the plight of the world's poor during this decade remains to be seen.

The scale of the problem to be addressed is enormous.

More than one billion people – one in five of the world's population – live in absolute poverty, which by World Bank definition means trying to exist on a $1 or less a day.

The most vulnerable are the young and the elderly. Some 150m children – one in three – are malnourished. Some 14m children a year die before their fifth birthday. Mortality among children under five in sub-Saharan Africa exceeds 180 deaths per 1,000; in Sweden it is fewer than 10.

If you live in Switzerland, your life expectancy is nearly 80; in Sierra Leone, you can anticipate half that span.

Nearly half of the world's poor live in South Asia, and a further 25 per cent are found in East Asia. But in both these regions, real per capita incomes has grown in the 1980s. It is sub-Saharan Africa, home to 500m people, that presents the bleakest picture, and poses the toughest challenge, to policy makers.

The 1980s saw a sharp erosion of post-independence achievements. Average per capita income fell by a quarter during the decade. Life expectancy is the lowest of all the developing regions. Infant mortality rates are the highest in the world, literacy rates the lowest – despite unprecedented development effort during the period led by the World Bank, UN agencies and bilateral donors.

Prospects for Africa – which accounts for two-thirds of the world's least developed countries (LDC) – remain bleak.

The continent enters the 1990s increasingly marginalised in terms of world trade and foreign investment, already feeling the effect of the Gulf crisis on oil prices and with aid experts divided about appropriate recovery programmes.

Ethiopian famine victims: Africa's infant mortality rates are the world's highest

The current strategy for the reduction of poverty in Africa and elsewhere was set out last July in the World Bank's World Development Report 1990, from which the above statistics are taken.

It proposed a two-pronged approach: policies in the developing world should foster labour-intensive growth based on market incentives and better management, while ensuring widespread provision primary education, basic health services, and family planning.

At the same time, says the Bank, more assistance from outside is needed.

In 1981 there was a positive flow of $42.6bn of resources to developing countries.

By 1988 it was a negative flow of $32.5bn, while the foreign debts of developing countries, more than $1,300 billion, required nearly $200bn a year in debt servicing alone.

"In the 1990s," argues the Bank, "the rich nations must start transferring resources to the poor nations once again."

The Bank acknowledges that for this to happen, there must be a "satisfactory solution to the lingering debt crisis."

Yet in the view of most economists and African Governments themselves, the debt burden remains a major obstacle to development.

The efforts of recent years – including the Toronto agreement in 1988 which gave the Paris Club Governments a "menu" of options for softer rescheduling terms, special facilities offered by the International Monetary Fund and the World Bank, and debt cancellation – have been welcomed.

But the initiatives "fall far short of providing support adequate to restore sustained economic growth in indebted countries," concludes a paper on developing country debt, published last April by the Overseas Development Institute, the London-based research body.

Moreover, says the Institute, implementation of some of the initiatives has been delayed; they do not necessarily provide adequate funding; they are often too short-term; and they are dependent on controversial adjustment programmes.

"Furthermore," it continues, "the 2-3 per cent rise in world interest rates during 1988-89 has cancelled out much of the relief the initiatives were intended to provide."

There is a second critical factor which will help determine the rate at which economic recovery in Africa takes place and poverty is alleviated: the level of foreign investment, along with managerial skills and technological advances.

The continent's returns on investment have become increasingly uncompetitive. Hence the fall in British industrial investment, for example, from 4.5 per cent of net investment abroad to 0.5 per cent.

The reasons are not hard to find. From being one-third higher than the level achieved by foreign investors in South Asia in the 1960s, returns fell to about one-tenth in the 1980s. Meanwhile investment costs are usually more than 50 per cent higher in Africa than in South Asia.

Although many countries in sub-Saharan Africa have embarked on structural adjustment programmes, while at the same time rewriting or revising their foreign investment codes, foreign business remains reluctant to return.

"For many British transnational corporations in Africa, structural adjustment has come too late," writes Mr Paul Bennel, an economics lecturer at the University of Zimbabwe. "Some are so 'Africa weary' that they want to disengage completely."

The third factor critical to Africa's recovery will be be the performance of its commodity sector, which in the past has been hit as much by domestic mismanagement as by weak international prices. By 1988 Africa's market shares for cocoa, cotton, coffee and copper had fallen by between 20 and 40 per cent of the 1970 market share.

If concern about the impoverishment of Africa were accompanied by further and substantial debt relief; new foreign investment accompanied by the management skills Africa so badly needs; and a recovery in commodity production that were not set back by further falls in world prices, living standards will improve.

This is an unlikely scenario. Most observers believe that the economic decline of sub-Saharan Africa will continue this decade. As Mr Robert McNamara, the former World Bank president, warned last June, the "nightmare" feared by the Economic Commission for Africa (the UN organisation based in Addis Ababa) is coming closer.

"Africa is a continent in crisis and there is little reason to believe that current development programmes will reverse the adverse trends," he told a meeting of the Africa Leadership Forum.

"The situation five years from now is likely to be worse, not better."

Real per capita growth in developing countries

Real export performance of developing countries

Stephen Fidler on international debt

Progress threatened

THE RISE in oil prices brought about by the Iraqi invasion of Kuwait threatens to blow off course the strategy for dealing with the international debt problem.

"If you'd asked me a few weeks ago about the debt issue, I would have said that progress, although slow, was being made. Now, this is far from clear," says Mr Moeen Qureshi, Senior Vice President for Operations at the World Bank. The question of whether higher oil prices demand extra efforts from the international institutions will be widely discussed at this month's annual meetings of the International Monetary Fund and World Bank in Washington. The problem in analysing the effect of higher oil prices depends on how high prices go and how long they will stay there.

However, there are only a minority of beneficiaries. Among the main highly-indebted countries, the World Bank has identified only Venezuela, Mexico, Ecuador, Algeria and Nigeria as beneficiaries. For some such as Mexico, the results are equivocal: recession in the US – its main export market – would hurt the economy.

The initial reaction in most industrial countries suggests that because the impact of the oil price rise is likely to be significantly less than of the two shocks of the 1970s, new initiatives – for example, a special oil facility from the IMF – do not appear warranted.

Many believe it is possible to handle the extra demands for official finance through the established channels, for example the IMF Contingency and Compensatory Financing Facility (CCFF) and the rules which allow for an expansion of access to IMF resources in special circumstances.

Many of those countries with special problems arising from the crisis will also be helped, if US proposals which call for international support both for its military effort and for affected economies.

"One thing is sure," said one monetary official last month. "We won't be calling on the commercial banks to recycle the OPEC surpluses." It was the 1970s recycling of the OPEC surpluses which left the commercial banks with their problem loans in the third world.

The ability of US banks, in particular, to withstand the impact of bad Latin American loans has, in the view of many, guided the pace of the international debt strategy. By now, with one or two exceptions, if they had not compounded their balance sheet problems by making subsequent unwise loans at home, banks would have put the debt issue squarely behind them.

It was against this background that the Brady initiative – named after the US Treasury Secretary, Mr Nicholas Brady – was launched in March last year. The initiative envisaged for the first time official funding, from the IMF and World Bank and from

Ashley Ashwood

US Treasury Secretary Nicholas Brady

bilateral donors such as Japan, to finance the reduction of a country's debt. It ended the focus on new lending by banks, although new bank loans were deemed still to be necessary, and paved the way, in effect, for a debtor country to default on its commercial bank obligations without bringing confrontation with creditors.

The balance sheet on the initiative shows it to have been a mixed success. The official sanction for debt relief has triggered a number of innovative approaches to bringing down many countries' debt burdens. It can be argued that in some countries, particularly Mexico, it provided an important psychological boost to

Only a minority will benefit from higher oil prices

efforts at economic reform. Indeed, some would argue that it has helped increase the commitment of some governments to economic reform, and it is only with this economic reform that the debt issue can be resolved. "Debt reduction and strong economic reform programmes can be a very powerful combination," argues Mr David Mulford, Undersecretary for International Affairs at the US Treasury.

However, the progress has been slower than many hoped. There have been a handful of beneficiaries – Mexico, the Philippines and Costa Rica, soon to be joined by Venezuela – and the financial benefits have fallen short of expectations.

The initiative was accompanied by a change in policy which allowed the IMF and World Bank to lend to countries even while they were in arrears to commercial bank creditors. This change has brought much criticism from international bankers, who blame it in part for the sharp rise in arrears to banks – to around $30bn – that has taken place over the last two years.

This question of financial discipline worries commercial bankers, but also concerns a broader constituency in central banks and elsewhere. This is one concern too over the moves now gathering pace towards extending debt relief to countries with a high debt burden to foreign governments rather than commercial banks.

However, having conceded that debt relief is necessary for countries with large debt burdens to commercial banks, it became increasingly untenable to hold that debt relief was not similarly desirable for countries with a large debt burden to foreign governments. So far, few are arguing that the IMF and other multilateral institutions should also be in the business of forgiving debt.

The way towards official debt forgiveness was paved at the Toronto economic summit in 1988. The so-called Toronto terms, initially applying only to the poorest countries has been widened to include other countries. It is likely to be further revised, because the benefits are so small – the interest savings to the 16 countries benefiting from the Toronto terms amount to a total $45m annually, the IMF estimates.

The focus is also on the so-called lower middle-income debtors, a group including countries as diverse as Jamaica and Poland. Less than one-quarter of Poland's foreign debt of $40bn is owed to banks, and it is expected to require some kind of official debt forgiveness by the end of March where its current moratorium agreed with the Paris Club of creditor governments ends.

Official debt relief is also an important part of President Bush's Enterprise for the Americas initiative. This calls for a reduction of as much as 50 per cent in up to $7bn of US aid loans to Latin America. The US will treat part of the interest paid by countries meeting certain economic conditions as principal repayments, and allow concessions on interest so that some can be paid in local currency – into a trust fund to use, for example, in local environmental projects.

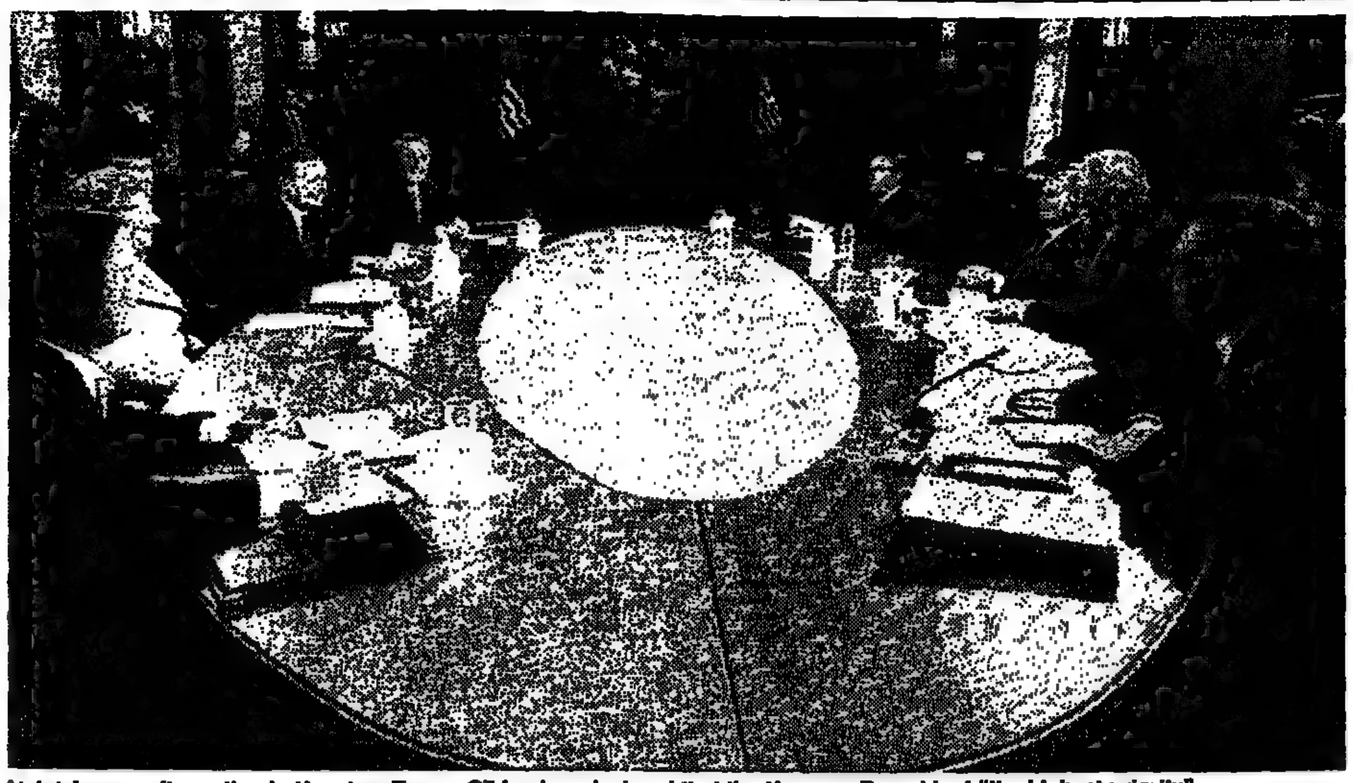
Up to $5bn of commercially-priced trade debt will also be eligible for debt relief, though more modest: 10-15 per cent may be sold for projects such as debt-for-nature swaps. From the US point of view, this has the advantage of being revenue neutral.

Since every country accounts for its official debt differently, the US idea cannot be made generally applicable. Neither would forgiveness on this scale make much difference for countries such as Poland. Indeed, the potential impact of official debt forgiveness on the budgets of the industrialised countries will clearly act as a continuing constraint to furthering such initiatives.

Moreover, further official debt forgiveness is likely to call into question the value of export credits as a means of transferring resources to the developing world. If this lowers the flows of funds, it may be a worrying development for the third world which, because of the retreat by commercial banks from lending, has become increasingly dependent on official sources of finance.

William Dullforce on world trade

Gatt delegates in race to beat December deadline



At July's summit meeting in Houston, Texas, G7 leaders declared that the Uruguay Round had "the highest priority"

THE RULES that will govern world trade in the 1990s, and possibly into the 21st century, will be decided in the next 10 weeks.

Time is running out for the Uruguay Round, the biggest-ever global trade negotiation launched four years ago by more than 100 Governments. The aim is to roll back protectionism and re-establish universal free trade as the guiding principle of the multilateral trading system.

The outcome remains uncertain. Since July, Governments have been parrotting the declaration by the leaders of the seven big industrial nations at their summit in Houston that the success of the Round "has the highest priority on the international economic agenda".

Yet in the negotiating arena at the General Agreement on Tariffs and Trade (Gatt) in Geneva, delegates are only too aware of the differences that remain to be resolved in such crucial areas as agriculture, services, textiles and intellectual property rights. Talks on tighter rules for Gatt that would trim the claws of protectionist governments hang in the balance.

There is no guarantee that negotiators will be able to assemble a coherent package of results from the 15 separate subjects under discussion by the first week in December, when trade ministers are due to meet in Brussels to complete the Round.

The Uruguay Round aims to re-establish free trade

Already, multinational companies have started to assess the effect on their operations of a division of the world into regional trading blocs.

Some American corporations regard such a scenario as entirely plausible. They suspect, despite denials from, among others, Mr Frans Andriessen, the European Community's external affairs commissioner, that the EC's will to conclude a multilateral trade deal has been dulled.

They point to the Community's preoccupations with its relations with eastern Europe; the establishment of its own single market by 1993; talks with the six countries of the European Free Trade Association on the creation of a "European Economic Space"; and the intractability of adjusting the EC Common Agricultural Policy to demands for liberalisation of world farm trade.

President George Bush's offer in June to negotiate a free trade partnership with the whole of Latin America (the US already has a similar agreement with Canada) increased fears that the world would split into closed, competing trade blocs if the Uruguay Round failed to deliver a new global trade order.

Such a result would deepen the plight of struggling Third World countries, especially in Africa. Even more dynamic developing countries in Asia, whose growth has hinged on trade under the existing Gatt system, worry about being left out. Mr Lee Kuan Yew, Singapore's Prime Minister, has voiced fears that the Asians would be "quarantined" into a Japanese yen bloc and excluded from European and American markets.

Mr Neal Blewett, Australia's trade negotiations minister, worried that the Gulf crisis could distract attention from the Uruguay Round, warned last month that failure would provoke rampant protectionism and commercial wars.

However, talk of trade armageddon is premature. If statements of intent are taken at face value and the political will persists in Washington and Brussels, trade ministers can still inject growth impulses into the world economy in December by enlarging and confirming an open trading system.

Recognising that the Round was running far behind schedule, the major trading nations agreed at the end of July on an accelerated and strict working programme. By October 1, countries have to table full details of their current agricultural subsidies. From October 8, senior trade officials from capitals must be in Geneva with full powers to negotiate and conclude agreements. October 15 is the deadline for governments to submit offers to cut farm supports and to open general access to their markets through tariff reductions and the removal or easing of non-tariff barriers to trade.

A breakthrough on agriculture remains the key to success. The US Administration and the Governments of the 14 farm exporting nations in the Cairns Group have emphasised that a substantial reduction in trade-distorting farm assistance is a *sine qua non* for a new international trade order. Earlier this year the OECD put the potential dividend from liberalisation of farm trade at more than \$200bn a year in savings to taxpayers and consumers.

Present agricultural systems are so entrenched and the issue so politically sensitive that the potential dividend is not a realisable target for the 1990s. But the OECD estimate illustrates the growth-stimulating release of resources – in farm-exporting developing countries as well as the industrialised world – that could follow a substantial, if partial, cut in farm subsidies.

The principal obstacle to an agriculture agreement has been the EC's reluctance to adjust its Common Agricultural Policy in any fundamental way. In July, the Community undertook to negotiate seriously progressive, substantial reductions in support.

There is no guarantee that negotiators will be able to assemble a coherent package of results from the 15 separate subjects under discussion

Putting farm trade under Gatt free trade rules is, however, only one of several major objectives for this most ambitious of Gatt rounds. Others are the liberalisation of the \$600bn per year trade in services and a global harmonisation of intellectual property rights which could stimulate trade in high technology products such as pharmaceuticals and electronics. Talks in both areas had become mired down in July.

The Round also aims at a fundamental overhaul of the Gatt system. For a provisional arrangement cobbled together in 1948, Gatt has served the world economy remarkably well through its most-favoured-nation principle, under which any trade advantage granted to one country must be unconditionally accorded to all other Gatt members.

Trade consistently grew faster than world output in the 1950s and 1960s, providing an important stimulus to growth. From the 1970s, however, Gatt's influence flagged and its limits were exposed.

Governments, under domestic pressures, circumvented Gatt principles by concluding bilateral voluntary export restraint agreements in cars, steel products and electronic consumer goods, and by subsidising their own producers. More recently, in the 1980s, there has been a surge in anti-dumping actions against imported goods allegedly being sold at prices lower than those charged on domestic markets.

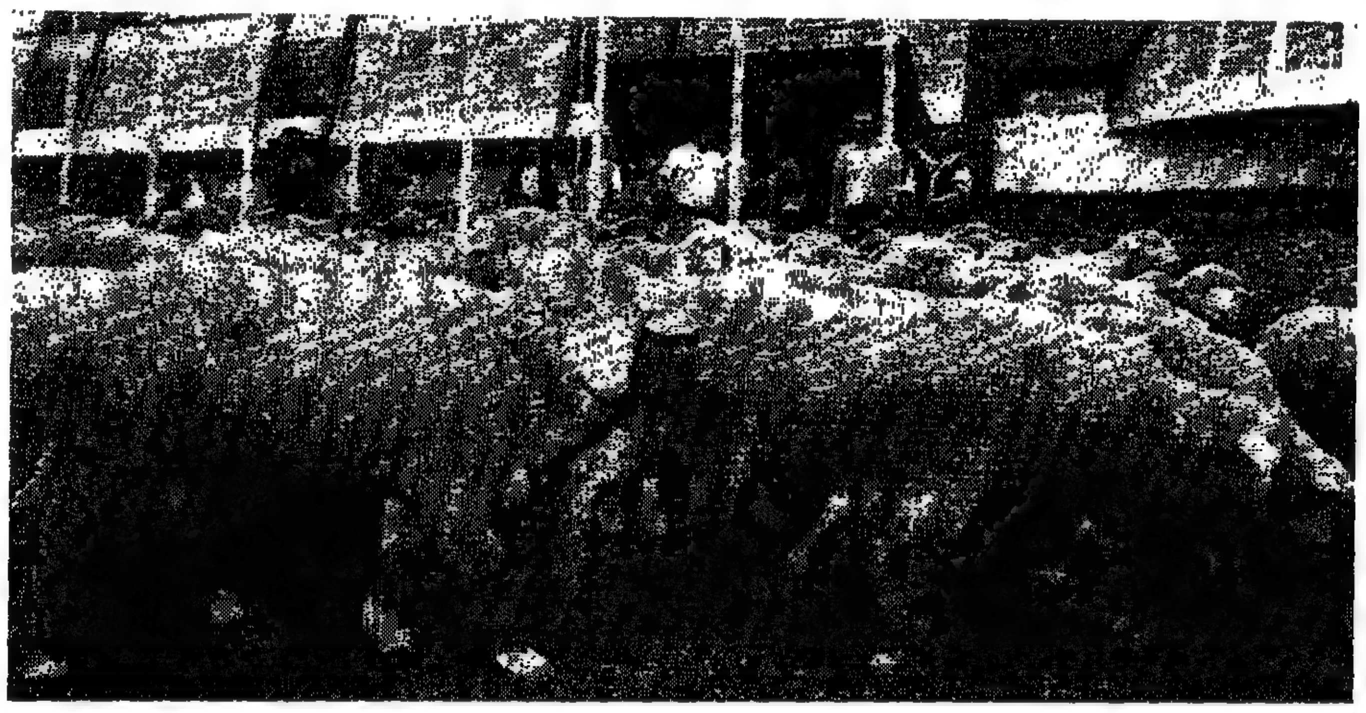
Moreover, Gatt has suffered from an aberration over trade in textiles and clothing, which has been governed, in contradiction of Gatt's basic principles, by a Multi-Fibre Arrangement based on import quotas. Removal of this anomaly is a central objective for developing countries.

Several sets of negotiations in the Round, some close to agreement, aim to "deblock" the Gatt system, strengthening its ability to settle trade disputes and enhancing its authority.

Final success depends, first, on settling the agricultural issue and, second, on negotiators being able to achieve a series of trade-offs among the complexity of varying interests.

The EC, for example, is making the opening of its textiles market conditional on tighter rules against circumvention of anti-dumping duties, which are strongly opposed by Japan, Hong Kong, Singapore and South Korea.

Tough political decisions will be needed over the next 10 weeks to bring a coherent result from this tangled situation. The prize is a growth-stimulating opening up of the global trading system.



Agriculture remains a key issue: French farmers protest against East German imports in front of the European Parliament

EC members differ over EMU timetable, writes **David Buchan**

New uncertainties slow Europe's progress to union

THE MOMENTUM over the past year towards economic and monetary union (EMU) in Europe seems to have been checked.

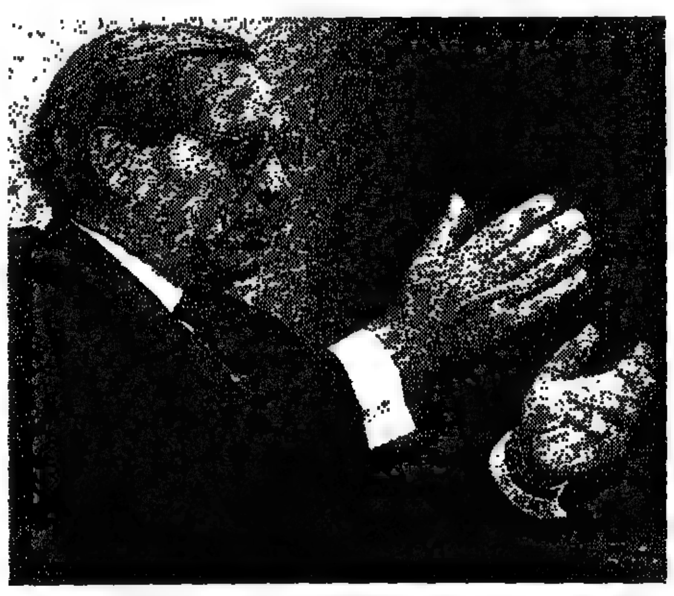
All EC states, except Britain, still favour the ultimate goal of sharing a single currency run by a federal central banking system. Formal treaty negotiations on creating EMU will start in December. But new uncertainties about higher oil prices and German unification, and old arguments for economic convergence and resource transfers to accompany or precede monetary union, are combining to make several of Britain's EC partners cautious about the pace at which they precede to EMU.

The picture has been further muddied by UK Chancellor Mr John Major's plan to promote a "hard" version of the European Currency Unit (Ecu) which could evolve, by popular acclaim and market demand rather than by formal treaty, into Europe's common currency. The Major plan has no outright supporters, but some other Governments find aspects of it intriguing enough to incorporate into their own plans. In particular, Mr Carlos Solchaga, the Spanish Finance Minister, has seized upon the "hard Ecu" scheme to make it the centrepiece of a late and long transition period, with EMU proper beginning in the next century.

The Delors plan (after Mr Jacques Delors, President of European Commission) for a three-stage move to Emu remains the main blueprint on the drawing board, but the transition it prescribes for moving to a final single currency is as long as a piece of elastic.

Portugual and Greece worry that they may not survive in EMU

This became clear when EC Finance Ministers met in Rome earlier this month and promptly divided into three camps on the issue of timing. The chief question is when the EC should move from the present system of co-operation between autonomous national central banks (through the European Monetary System) to a second phase, in which an embryo of the eventual European System of Central Banks (ESCB) would be set up to assume responsibility from national central banks (which would only become legally subordinate to the "Eurofed" in the final Stage 3).



Above: Bundesbank President Karl-Otto Pöhl and, right, President of the European Commission Jacques Delors

France, Italy, Belgium, the European Commission itself, and to a lesser extent Denmark, Luxembourg and Ireland, form the "full steam ahead" camp. They believe that closer monetary co-operation, even union, can precede full economic convergence between the EC states.

They do not dismiss the need for all members of a monetary union to get their inflation rates and public deficits down. But they argue that a monetary straitjacket can provide just the right discipline to achieve such economic convergence. In support, they cite the superior performance of the nine EC states whose currencies are in the EMS' exchange rate mechanism over the three - Britain, Portugal and Greece - that are still outside it.

These last three countries form the core of the "go-slow" group. The Portuguese and Greeks are genuinely worried about how they might survive economically in monetary union, though they do not, or dare not, object to it as the eventual goal. Therefore they want no timetable set to EMU. Spain, with its bigger and more buoyant economy, is happier with EMU, but on a delayed timetable.

All three southern states want EMU to be accompanied by more money from richer EC members. Mr Delors, however, is firmly against this. Anything smacking of compensation would imply that EMU is inherently bad for certain EC economies. The richer countries (including Britain) would almost certainly refuse to add to EC structural economic aid funds. Under a 1988 agreement, these are already set to double to Ecus 14bn per year by 1993. Total EC aid, including agricultural support, now accounts for, respectively, 5.1, 5.9 and 2.3 per cent of the GNPs of Greece, Ireland and Portugal.

In unholy tactical alliance with the southern states is the British Government. It does not share with them, or any of its 11 EC partners, the final goal of a single currency; even if it did, it would not support their desire for a greater shift in EC resources from rich to poor.

The Germans and the Dutch are the "perfectionists", in the sense that they would like to see the Delors report followed to the letter. This report was produced last year by a committee largely composed of central bank governors, chaired by the Mr Delors but with Mr Karl Otto Pöhl, the Bundesbank president, the dominant influence.

Two key themes of the report, from which Mr Delors has since sought to disassociate himself and the Commission, are the stress that it lays on the need for economic policies and performance to converge in parallel with steps to EMU, and for binding rules on states' budget deficits.

At the September meeting in Rome, Mr Theo Waigel, the German Finance Minister, and Mr Pöhl warned that any attempt to construct monetary union without prior convergence between EC economies would be a house built on sand. The risk of letting the Community's monetary ambitions run ahead of economic convergence had already been highlighted in the 1970s with the sorry history of the "snake". Mr Pöhl and Mr Waigel also made clear that, in a monetary union, they want Governments to be subjected to more than mere words from their EC partners if they run excessive deficits.

These are, of course, the men who must deal with the economic consequences of German monetary union, and they know that accusations that they are sacrificing the D-Mark on the altar of European unity will be thrown at the Bonn Government in the coming German election campaign.

On the face of it, the "go-slow" and "perfectionist" camps might seem to be on the same side. Britain and Germany are at one in stressing the need for economic convergence. But, ironically, no country is less interested in half-way moves to EMU, such as development of the hard Ecu, than Germany.

The vast bills run up in the Reagan era have fallen due, writes **Anthony Harris** in Washington

The US: whatever happened to the long expansion?

IN THE first days of July an alarming purported leak from the White House began to circulate among economists.

An industrial delegation, it was said, had met something like despair at the state of the economy. The property market downturn, the growing recession in the populous north-eastern quarter of the country, reports of growing strain on the banks and the slow fall in real consumer spending were just becoming evident. What had happened to the long expansion?

The rumours were discounted at the time; the consensus view was still quite cheerful, as were the public statements of Administration officials.

It was not long, though, before President George Bush astounded and divided his own party by announcing that he would eat his best known

White House alarm over the economy has become generally shared

words in the election campaign, and discuss a budget package including tax increases.

Only in this way, it was argued, could confidence be restored, strain on the credit markets reduced, and the expansion be saved.

The President's judgement about the markets was quickly confirmed when the Federal Reserve moved shortly afterwards to cut interest rates by a mere 25 basis points, to offset the tighter lending criteria which the banks were applying. The markets responded by selling bonds, so that long term rates, which determine the debt service burden on the federal budget, rose to 9 per cent. Equity markets suffered a slow-motion crash.

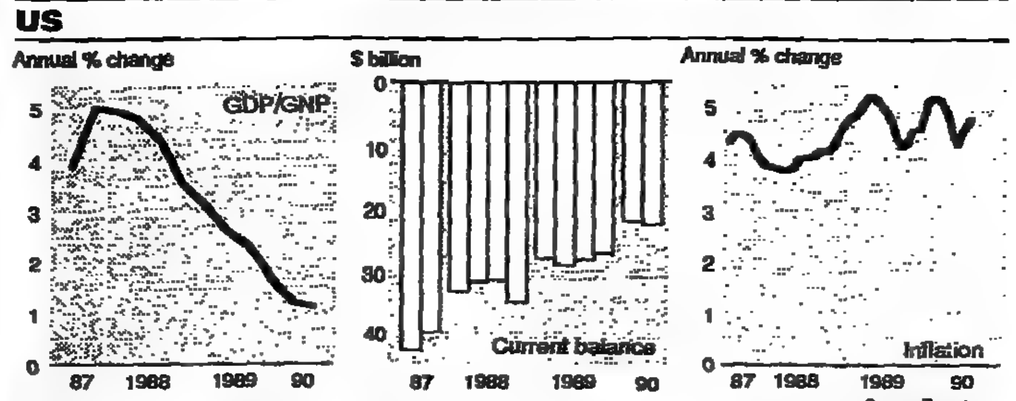
Then, as the Fed seemed ready to risk another modest easing, the Gulf crisis erupted, and both policy and the markets have been in near-paralysis.

The reported White House alarms about the economy have become generally shared. This is only partly due to the Gulf. After an initial shock, and an episode of oil-company bashing, most economists share the view robustly stated on September 6 by Mr Jerry Lasinowski, President of the National Association of Manufacturers (NAM). "While it's a crisis in a political and human sense, I think it is an overstatement to call it a crisis in an economic sense" he said.

Mr Lasinowski argued that the price impact would be quickly absorbed and US competitiveness might actually be improved, since the impact on trading partners would be greater than on an economy which is about 50 per cent self-sufficient in oil. The NAM forecast a short, shallow recession – "extremely mild, the mildest since the 1960s" – followed by a rebound in 1991. Non-oil imports would fall during the recession, and a further decline in the dollar was likely. "We still get an improvement in the trade balance," he said.

It is no accident that this cheerful view comes from the manufacturing sector. Manufacturing has most to gain from export growth, from a weak dollar, and indeed from

US



military spending in the Gulf. Inventories are under control, labour costs subdued, energy efficiency high, and order books close to an all-time peak. Above all, it is least embroiled in the crisis of debt and asset values which has devastated the real estate market, the banks and broking houses, and exposed over-leveraged companies of every kind.

In all these respects, any recovery in 1991 will be the reverse of the the Reagan boom, based on rising asset values, a lax budget, and a dollar so strong that it nearly wiped out those most exposed to import competition. For manufacturers it could echo the recovery after the 1987 stock market crash, led by export growth.

It is likely to be a pale reflection, though: exports are growing at only a third of their remarkable pace then, and domestic demand is flat (and likely to remain so).

If the Gulf crisis intensifies, and causes a genuine oil shock in the importing economies of the USA's trading partners in Europe and Asia, the recovery could peter out.

There is another pale reflection, though, haunting the rest of the US economy: that of 1929, and a reversal of credit-fed asset price inflation. The collapse of the junk bond market and the plight of the banks has been telling the financial story for some time. It is short of a catastrophe thanks to sensible credit limits in portfolio investment, and the deposit insurance system which, unlike 1929, transforms private loss into an addition to the national debt.

But the impact on the rest of the economy has only just begun. Construction output, for example, is still rising in money terms (though some 100,000 jobs have already been lost) but new starts in housing have fallen by more than a third in two years, while new commercial development is at a standstill on the eastern seaboard, and falling rapidly in the golden west. As existing projects are completed, to become a nightmare for those who financed them, activity seems certain to fall steeply.

In the consumer market, the effect is more evident. Consumer have treated Wall Street's troubles with detachment (this was the surprise of 1987, and direct personal holdings in the market fell steeply

Any recovery in 1991 will be the reverse of the the Reagan boom

after that incident).

Personal bankruptcies are at a post-war record, but still mercifully low; but the eager borrowing of the Reagan era is over.

Consumer debt has for some time been growing more slowly than incomes – the counterpart of the steady (and largely unforecast) increase in personal saving. This reflects not only reluctance to get into debt, but insecurity – about house values and job prospects. The ratio is likely to go on recovering towards its norms of the 1970s, when 8-10 per cent of income was saved rather than the current 6 per cent or so, both because of caution and the ageing of the Thirty-something generation into the balanced forties and high-saving fifties.

It is the troubles of corporations, though, which are dominating the economic prospect (not to mention the troubles of the banks). The corporate sector bought in more than $500bn of its own equity in the 1980s, either in the course of takeovers or as protection against them; balance sheets are riddled with debt. The results can be seen most dramatically in property development, which is in acute distress, in the deregulated airlines and in retailing, where trading margins are fairly normal but net profits have been halved in a year as cash flow is eaten up by debt service.

The corporate economy has largely embarked on a debt work-out – sometimes supervised under Chapter 11 of the bankruptcy laws, but generally voluntary, like the balance-sheet drive of British industry a decade ago. It is this which is ensuring that new buildings stand empty, is pinching spending on plant and machinery, and is even threatening the civil aircraft boom. Such adjustments are by nature slow, and will be slower than usual this time.

The vast bills run up in the Reagan era have fallen due, and although the recession may well be shallow, it is not easy to believe in the bounce-back promised by economists whose models, like the economy they represent, are weak on finance.


Tony Andrews

President Bush: about to renege on 'no new taxes' pledge?

Could Japan's economy turn sour? **Ian Rodger** investigates

Tough monetary policy begins to bite

JAPAN'S economy has performed so strongly for so long that it is difficult to imagine it turning sour.

It is now in the 46th month of an uptrend, the second longest since the war, and most economists forecast that the boom will continue for some time yet.

For the current year, real growth of nearly 5 per cent is widely expected, in spite of the impact of the Gulf crisis.

However, even before Iraq's invasion of Kuwait, clouds were beginning to gather. Inflationary pressures, particularly from labour shortages, have become the main preoccupation of the authorities, and the Bank of Japan's monetary policy squeeze appears to be beginning to stifle corporate capital spending, which has been one of the main sources of growth.

Some economists suggest that the economy could peak and turn down in the first half of next year.

Undoubtedly, the major event in the Japanese economy this year has been the abrupt change in the authorities' approach to monetary policy, coinciding with the promotion in late December of Mr Yasushi Mieno to the position of Governor of the Bank of Japan.

Mr Mieno immediately made clear his displeasure with the sharp rises in share and property prices over the previous three years and his anxiety about new inflation pressures and excessive money supply growth.

The consumer inflation rate in Japan is only about 2.5 per

Labour shortages have become acute, which could push up wages

cent, but labour shortages have become acute.

The jobs offered to job seekers ratio in June reached an extraordinary 1.47 to 1 level. If the shortage continues, competition for labour will become more intense, pushing wages up.

Meanwhile, money supply has been growing at 12 per cent or higher in recent months, although it has been distorted by shifts in saving patterns caused by deregulation of bank interest rates.

Since his arrival, Mr Mieno has raised the official discount rate (ODR) three times (the latest in August, bringing it to 6 per cent, the highest since 1980) in an attempt to dampen these tendencies.

The first effect of this squeeze was to close the gap between Japanese and US interest rates, and recent figures show that flow of capital from Japan to the US has come to a halt.

Japanese investors registered net sales of $8.9bn in US securities in the first half of this year, according to figures compiled by the Japanese Ministry of Finance.

BoJ officials have claimed that the possible impact of their policy on US interest rates is not uppermost in their minds.

This is a stark contrast to their easy money policy of the mid- and late 1980s, which was aimed mainly at preventing a dollar collapse, and begs the question of whether it could be sustained if the US economy went into recession.

Higher interest rates also played a big part in the collapse of the Tokyo stock market this year.

Again, in contrast to past behaviour, BoJ and Ministry of Finance officials have gone out of their way to say that they are unconcerned.

Indeed, in the spring, when the slump appeared to have come to an end, one senior BoJ official suggested that the market had not fallen as much as he would have liked.

Mr Mieno added to the impression of toughness earlier this month when he told foreign journalists in Tokyo that he would welcome a gradual 20 per cent fall in property prices,

The flow of capital from Japan to the US has come to a halt

despite the pressure such a development might put on some financial institutions.

The stock market crash has already put heavy pressure on the banks.

A large portion of the capital base of Japanese banks consists of unrealised profits on shares of client companies purchased long ago.

The value of those unrealised profits has, of course, dropped substantially this year, undermining the banks' capital ratios.

Leading banks had begun to take a more austere attitude to their customers early this year, but in recent weeks they have sharply curtailed new loan activity, and asset growth has virtually disappeared.

As Japanese industrial companies are flush with cash after four boom years, this credit squeeze is having no immediate impact on their capital spending plans.

Recent surveys suggest that corporate capital spending growth this year will be in double figures for the third year in a row.

However, many economists believe the squeeze – along with other factors, such as slowing profit growth – will make companies much more careful in setting their capital budgets for next year.

Within days of Iraq's invasion of Kuwait, analysts realised that the direct impact of higher oil prices on the Japanese economy would be modest. Energy conservation measures taken since the first oil shock in 1973 have made Japan an extremely efficient user of energy.

Thus, while the first oil shock knocked 6 per cent off GNP growth, nobody expects recent prices to shave off even 1 per cent.

The concerns are of more indirect impacts. Many industrialists fear that oil price increases will have a substantial negative effect on the economies of other major countries and thus weaken export markets.

Second, they fear that the BoJ will continue to push up interest rates out of concern about the impact of higher oil prices on domestic inflation.

If both these fears materialise, they too would make industrialists more wary of committing themselves to big capital spending projects next year.

Mr Robert Feldman of brokers Salomon Brothers in Tokyo forecasts that corporate capital spending growth will tumble from an estimated 10.7 per cent this year to 4.4 per cent next year. He cites a recent flattening in machinery orders as an early indicator of the trend.

Another effect of tightened monetary policy has been a strengthening of the yen in recent weeks.

This has been welcomed by the authorities and, if sustained, could have a number of positive effects. Not only would it reduce the inflationary pressure coming from imports, it could also dampen the troubling growth of exports over recent months.

The outlook for the trade and current account surpluses has been clouded by the Gulf crisis, with estimates for the current account surplus in the fiscal year to March 31, 1991 ranging around $40bn, compared with $53.4bn last year. However, the all-important trade surplus with the US will remain high, leaving economic policy vulnerable to political pressure from the US.

And that is the big question mark over current economic policy. If it produces a significant slowdown at a time when other major economies are also weakening, Japan will come under great pressure to play a locomotive role.

The stock market crash has already put heavy pressure on the banks

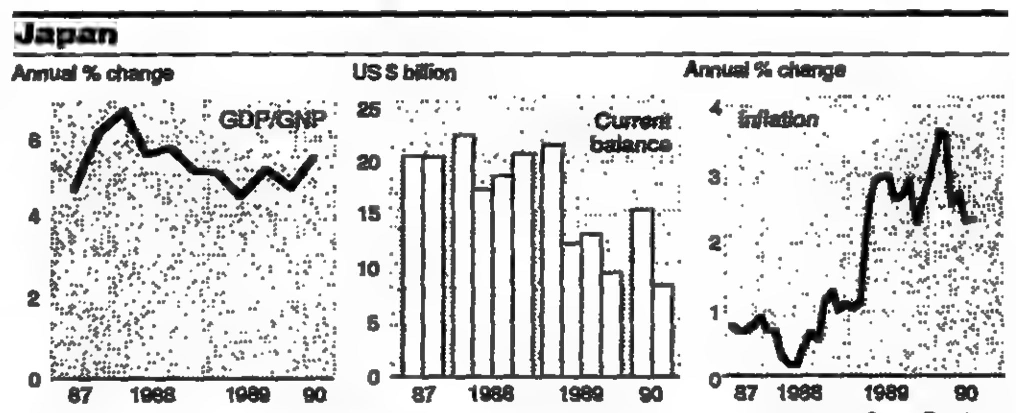
The Ministry of Finance will undoubtedly moan that it has to avoid deficit financing, but as Japan has the lowest net debt position of any country in the OECD, this argument will not be sustained.

Moreover, in the Structural Impediments Initiative (SII) talks earlier this year, the Japanese Government committed itself to large public works expenditures in a counter-cyclical way over the next decade.

Similarly, current tight money policy will be difficult to sustain if it becomes apparent in the next few months that it is forcing the US to raise interest rates at a time when the US economy is weakening.

Many in Tokyo are surprised that this pressure has not already materialised.

Japan



Yasushi Mieno, Governor of the Bank of Japan

Will merger mean triumph or crisis? **David Marsh** reports

Germany discovers the price of reunification

RAPIDLY-UNIFYING Germany is straddling a thin line between triumph and crisis. The merger of the two states which takes effect on October 3 is bringing an unparalleled economic transition to the eastern half of the country –

East Germany faces a period of brutal economic transformation

an area run on totalitarian lines between Hitler's take-over in 1933 and last autumn's bloodless revolution.

In the long term, German reunification is condemned to succeed. In a state take-over which in the past has been witnessed only as a result of war or annexation, an infusion of West German money, talent, know-how and ideas is bound to produce an economic boom east of the Elbe. The drawback is that, over the shorter term, East Germany faces a period of brutal economic transformation which could spill over towards dampening the otherwise healthy prospects of the rest of the country.

As it stands, Germany is ideally poised to turn the long-desired goal of unity into an economic success story. West Germany is now in its eighth successive year of recovery after the 1981-82 downturn, with gross national product this year due to rise by 4 per cent, the same as 1989. The country has emerged from the growth doldrums of the mid-1980s. The economic stimulus of unification has been calculated to be adding an extra percentage point per year to West German GNP – representing a supply- and demand-side boost to the whole of Europe.

In East Germany, the picture could not be more different. Ironically, as 40 years of division are being overcome, a colossal economic split is opening up. East German GNP is expected to fall by about 10 per cent this year, an inevitable result of closure of inefficient companies caused by the chill wind of competition after the introduction of the D-Mark on July 1.

Latest figures suggest that the decline could be even greater. Industrial production in East Germany fell by 42 per cent in July compared with

'It is necessary to go through a process of creative destruction'

July 1989. Government officials in Bonn admit that ministers, from Chancellor Helmut Kohl downwards, have been taken aback by the speed and completeness of the East German economic collapse.

A favourite theme of German managers and economists is that East Germany during the next year or so must traverse a "valley of tears". If the process runs relatively smoothly, Mr Kohl – the first Chancellor of a united Germany since 1945 – will reap huge benefits in both human and political terms. But if East Germany proves unexpectedly resistant to the new doctrines of the market-place, not only the German economy, but also the whole of the continent, is likely to suffer.

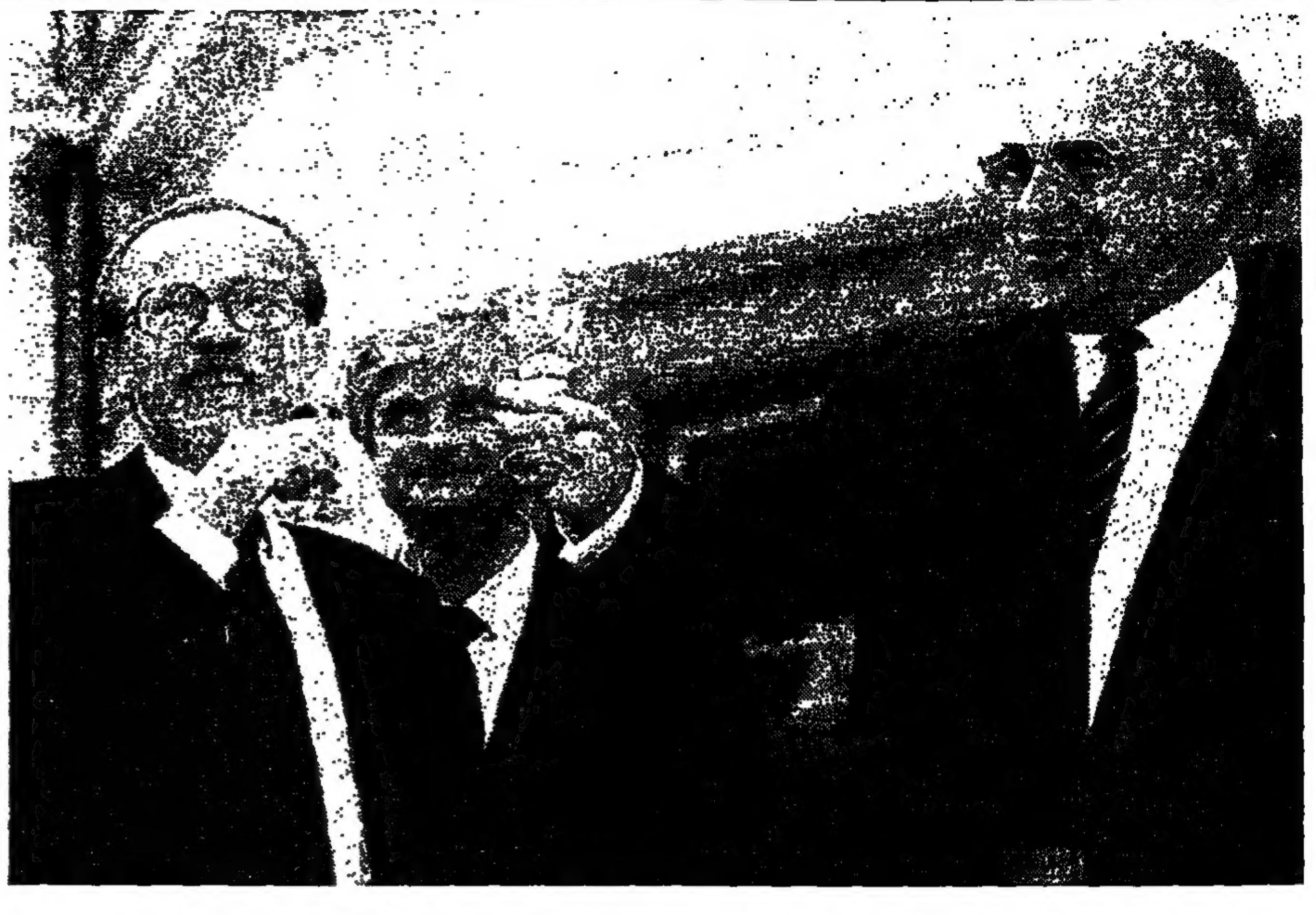
Mr Kohl says October 3 will be "a day of joy" for all Germans. But he has coupled this with repeated warnings in recent weeks that the adjustment from Communism to capitalism will be "anything but easy". Sobriety has been increased by anxieties about the effects of the Gulf crisis. But even before the Iraqi invasion of Kuwait, one key Bonn official went to pains to warn against *Schadenfreude* abroad about the potential problems facing Germany. Referring to the still greater adjustment difficulties in other parts of eastern Europe, he said: "If we cannot make a success of reunification, who is likely to succeed anywhere else?"

The West German Economics Ministry commented in its August monthly report that the sharp increase in unemployment and short-time working in East Germany was "not surprising". In August, 361,000 were out of work, while 1.4m were on short-time, many in enterprises facing bankruptcy – a massive psychological

Some selective increases in taxes and levies look almost certain

challenge in a state which, under the highly inefficient Communist system, was used to nominal full employment. Unemployment in West Germany, meanwhile, has been falling steadily, and in August was around 1.8m.

"It is necessary to go through a process of 'creative destruction' in which unprofitable jobs disappear and are replaced by new ones in competitive companies," the ministry said. Destruction, however, precedes creation, and there has been much bitterness east of the Elbe at the sluggish pace of new investment by big West German companies. The resignation in August, after only five weeks in the job, of Mr Reiner Gohlke, the head of the Treuhand agency supervising 8,000 sickly East German enterprises, was a sharp blow to confidence.



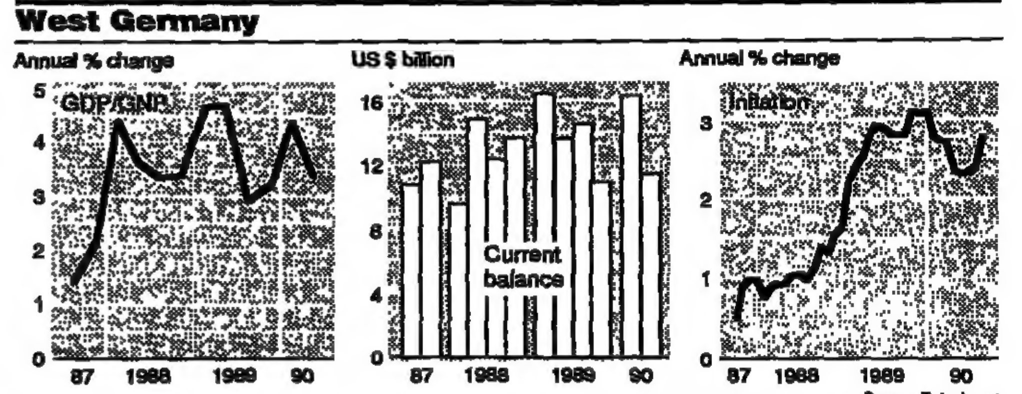
West German Chancellor Helmut Kohl (right) and East German Prime Minister Lothar de Maiziere toast unity

The Bonn Government hopes that full political unity, following the bringing together of the monetary, fiscal and social security systems in July, will give an important stimulus to investment in the East. Perhaps most importantly, Bonn has been anxious to clear up uncertainties about property ownership in the formerly collectivist eastern state, which has been a significant handicap to investment.

Much higher than expected unemployment in the East, together with sluggish tax collection, has sharply increased financing costs, however. Mr Theo Waigel, the Finance Minister, has been badly embarrassed by having to introduce a third supplementary budget for 1990, which may total more than DM20bn. Borrowing for all parts of the public sector is likely to be well over DM100bn next year – a prime factor (along with the Gulf crisis) pushing up interest rates.

The issue of financing unity costs will be a major theme in the December 2 general election. Mr Oskar Lafontaine, the

West Germany



Social Democrat candidate for Mr Kohl's job, has called for tax increases to take strain off the capital markets. The centre-right coalition has roundly rejected this course of action – though Mr Kohl has lately been less emphatic than a few months ago in ruling it out. The Government has decided, however, to put on ice a promised DM25bn worth of tax cuts for companies and high earners. Some selective increases in taxes and levies look almost certain next year.

Mr Lafontaine's chief election hope has been a negative one. He knows that the majority of West Germans regard unification with sympathy, but with no great enthusiasm. He is banking on the deterioration of the East German economy, coupled with the lack of national solidarity, rebounding on Mr Kohl's Christian Democrats on December 2.

The SPD line may well backfire. Mr Kohl will try to use the two months "rump" parliament between October 3 and December 2 to push through emergency economic measures to shore up the east. Even if, as is quite possible, the transition process in the former Communist state becomes still more destructive, the SPD seems unlikely to benefit. In an economic crisis, Germans do not tend to vote for the Left.

France is suffering from the slowdown, writes **George Graham**

Socialist government shows its monetarist slant

FRANCE'S Socialist Government was not wholly thrilled this spring to be hailed by the Financial Times as more monetarist than Mrs Margaret Thatcher.

The compliment may have been double-edged, but it was still a compliment, and was greeted as a welcome recognition that after all its efforts since the policy about-turn of 1983, France had joined the ranks of the hard currency nations.

Prospects for growth, inflation and even unemployment placed France among the industrialised world's strongest economies.

Six months on, the outlook is structurally the same, but forecasters are much more cautious about how high French growth can go and how low French inflation.

The shock to oil prices provoked by Iraq's invasion of Kuwait helped to draw back the curtain, but the signs were already becoming evident that France was suffering more

Forecasters are more cautious about growth and inflation

than had been expected from a slowdown in world economic activity.

Insee, the state economics institute, announced at the end of August that growth in the first six months of 1990 had reached only 0.6 per cent, less than half the 1.3 per cent it had been predicting only six weeks earlier.

Consumption continued to grow, but company investment and exports, the most important motors for French growth in the last two years, went sharply into reverse in the second quarter.

"Begun in the spring of 1989, the slowdown now appears more marked than had been foreseen: average growth of 3 per cent for 1990 thus appears very difficult to achieve," Insee commented.

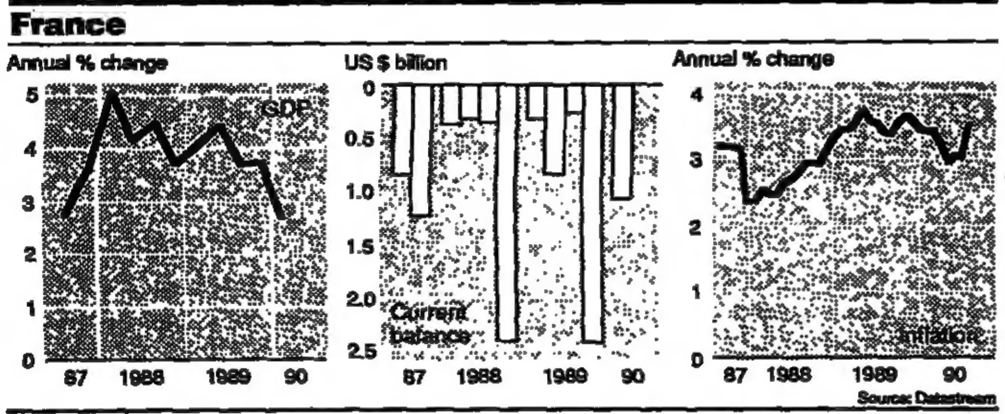
French economists generally agree that the oil shock experienced so far since the invasion of Kuwait is modest compared with those of 1973-74 or 1979-80, especially since the weakening of the dollar limits the impact in French franc terms.

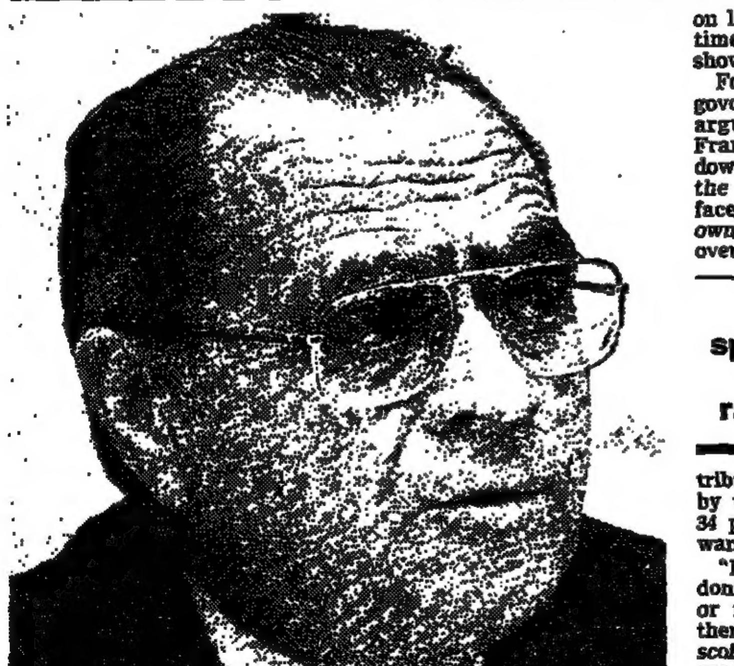
They also agree that the economy is now much less vulnerable to the effects of such a shock.

In 1973, petroleum products accounted for 69 per cent of total French energy consumption, but by 1979 the proportion had been reduced to 56 per cent, and last year French oil dependency stood at only 43 per cent. This is due largely to the massive French nuclear energy programme: nuclear and hydro-electric power accounted for one-third of total energy consumption last year, compared with 8 per cent in 1973.

At the same time, the importance of Iraq and Kuwait as suppliers has diminished in the last few years, mostly in

France





Finance Minister Pierre Bérégovoy

favour of Iran. In 1978, Iraq and Kuwait accounted for 11 per cent of total French oil imports, but last year Iraqi shipments dropped to 5.7m tonnes, 7.5 per cent of all imports, and Kuwaiti deliveries were virtually non-existent.

The consequences of higher oil prices are therefore not expected to be any more marked for France than for

The oil shock has been modest compared with 1973-74 or 1979-80

major competing economies, such as Japan or West Germany.

The forecasting unit Observatoire Français des Conjonctures Economiques (OFCE) estimates the impact of an oil price of $27 per barrel on French growth at -0.15 of one percentage point this year and 0.2 of one percentage point in 1991.

This is slightly less than the impact on West Germany and substantially less than that on Japan, OFCE says.

Inflation, on the other hand, could accelerate somewhat more in France than in West Germany or Japan, but OFCE's estimate of 0.4 of a percentage point in 1990 and a further 0.7 of a point next year remains relatively moderate.

Mr Pierre Bérégovoy, the Finance Minister, appears to have little quarrel with these estimates.

He has made some FFr10bn of adjustments to the 1991 budget, presented two weeks ago, but has not opted for a complete overhaul, which would, in any case, have been difficult in the time available.

These adjustments will have the effect of tightening up on Government spending, which is expected to rise by 4.8 per cent compared with the 5.6 per cent initially programmed, and of reducing the tax burden on companies, notably through a reduction in the rate of tax on undistributed profits.

The modifications in favour of companies, however, have sharpened a feeling of unease in the majority Socialist Party, many of whose members feel that the policies of "austerity" and "rigour" which have succeeded each other since the about-turn of 1983 have gone on long enough, and that it is time for the Government to show that it is still socialist.

For the time being, Mr Bérégovoy appears to have won the argument, with President François Mitterrand coming down firmly on his side. All the same, the Government faces a stiff debate with its own supporters in Parliament over whether the tax on undis-

Government spending is set to rise by 4.8%, rather than 5.6%

tributed profits should be cut by three percentage points to 34 per cent, as Mr Bérégovoy wants, or only by two.

"I see that the socialists don't want to hear of austerity or rigour. I am waiting for them to invent a third word," scoffed Mr Raymond Barre, the centre-right economist who was Prime Minister from 1976-81, during the last oil shock.

Mr Bérégovoy may have the last laugh over Mr Barre, however, for if one thing is clear, it is that his ministry is determined to avoid the policy mistakes that led France to suffer so severely from the oil shocks of 1973 and 1979.

"Last time, we failed to avoid the inflationary process. Our first concern is to avoid that, by aiming for the least possible inflation, beyond the mechanical effects of higher oil prices, with the least possible indexation of wages," comments one of Mr Bérégovoy's advisers.

As OFCE observes in a recent study*, the first oil shock reduced French GDP by 2.1 per cent between 1973 and 1975, but over the same period the share of business in GDP fell by 3.3 percentage points, while households gained 4.7 percentage points. Again, the second oil shock, coupled with a rise in the dollar, cut French GDP by 3.4 per cent; but business's share fell by 2.3 percentage points, while households gained 0.9 of a percentage point.

Ironically, it may take a socialist Government to ensure that companies do not have to bear the entire burden of adjustment.

**L'Economie Française depuis 1967, edited Jean-Marcel Jeanneney, published by Seuil.*

Eastern Europe will find change difficult, writes **Anthony Robinson**

From communism to capitalism

FOR THE newly capitalising economies of formerly Soviet-controlled eastern and central Europe, times are hard and likely to get much harder over the next year.

The UN Economic Commission for Europe estimates that industrial production in the six countries, including East Germany, fell by 13.4 per cent in the year up to the end of the first quarter of 1990.

Since then the pace of factory closures and the dissolution of bureaucracies has speeded up. As demolition of the formerly centrally planned system proceeds apace, unemployment lines are growing longer while inflation and currency depreciation bite deeply into already low real incomes and living standards. The governments which emerged from the relatively free elections throughout the area this year will be sorely pressed to cope with the social and economic strains tearing at societies still heavily conditioned by the long years of one party rule.

The emerging pattern is fragile and highly variegated, reflecting the underlying historical and cultural complexity of an area roughly soldered into an apparent economic and political similarity by the imposition of an alien system but now re-emerging with all its ethnic and other tensions intact.

But economically all share common features as they enter the tunnel of transition to market-based systems. All are cutting price subsidies, preparing for privatisation, creating new institutions to cope with unemployment and attempting to construct a legal framework which permits private ownership of land and resources and a framework for foreign investment.

Some, like Poland, have already achieved currency convertibility by the simple, but painful decision to devalue down to the former black market rate. Others view convertibility as a major target still to be achieved.

The pain of demolishing the artificial, but to some extent comfortable, rigidities of the centrally planned system has been accentuated by the recent rise in world oil prices.

A study by Credit Suisse First Boston estimates that each $5 per barrel rise in the oil price from the 1988 level of around $16 per barrel adds $3bn annually to the global oil import bill of the six countries, more than 1 per cent of their combined GDP.

Hitherto, Comecon rules have partly sheltered the region from such shocks. But from January 1991 rapidly declining intra-Comecon trade will be conducted on a world price equivalent, hard currency basis.

This means that Soviet oil will be sold to eastern and central Europe at the world price, ending what had been an effective Soviet subsidy worth an estimated $16bn annually at 1988 prices.

The shock of simultaneously having to adjust to a major change of rules in intra-Comecon trading and seek a new basis for integration into the global capitalist trading and investment world is doubly unsettling.

However, the longer term consequence of the Gulf crisis should be to speed up long needed efforts to curb energy consumption by improving energy efficiency.

In many cases, especially in East Germany, Poland and Czechoslovakia, this will mean speedier closure of energy inefficient, and usually polluting, heavy industrial plant.

While this will cause major social problems in the affected areas, many such factories hitherto supplied steel or machine tools to the Soviet Union where the ultimate customer was the Soviet military-industrial complex. This sector is due for savage pruning, which would in any case have cut back orders from Comecon countries.

Another consequence of higher oil prices should be to ensure that the re-equipment of east European industries incorporates energy saving technology which would both reduce future dependence on imported fuels and lower the present lethal levels of pollution in heavily industrialised areas.

Recent developments have underlined the emergence of a "two tier" structure in eastern Europe, mirroring to some degree similar developments in western europe where the UK and other weaker economies are hard pressed to adopt the economic and political disciplines required to move from stage one of the Delors plan to the stated goal of economic and monetary union.

Apart from East Germany, with its rapid re-incorporation into a unified German state, the main "fast track countries" are Poland and Hungary, which are also those with the heaviest burden of external debt.

Czechoslovakia, with lower debt, a more sophisticated industrial workforce and stronger social democratic traditions, has more leeway to proceed more slowly and with less social dislocation. Romania and Bulgaria form the weaker southern rim, with shaky industrial and political structures but considerable agricultural and tourist potential and useful trading links with the middle East.

Poland recently proposed to the Paris club of western creditors that it should pay off the $40bn debt accumulated by the Communist Government at a discounted rate of 17 cents on the dollar. The proposal was immediately rejected, but there is growing recognition by western Governments and bankers that drastic action is required if the harsh economic sacrifices made by Poles in the name of conversion to a capitalist system are to bear long term fruit.

Over the first seven months of this year Poland achieved a $2.48bn hard currency trade surplus as the shift to a market economy slashed domestic demand and foreign imports while industrial sales fell by 29 per cent.

Inflation dropped from the hyper levels of 1989 as strict controls on wages absorbed the previous monetary overhang. On the flip side unemployment soared as real incomes fell.

Thus far the political consensus behind radical economic changes remains intact. In July, Parliament voted with convincing majorities to proceed with large scale privatisation. More than 7,000 enterprises, accounting for 90 per cent of industrial output, could be up for sale.

In Hungary, whose $20bn foreign debt is the highest per capita in eastern Europe, the current account also swung into a $200m surplus over the first half of this year from a deficit of $1.1bn in the same period of 1989.

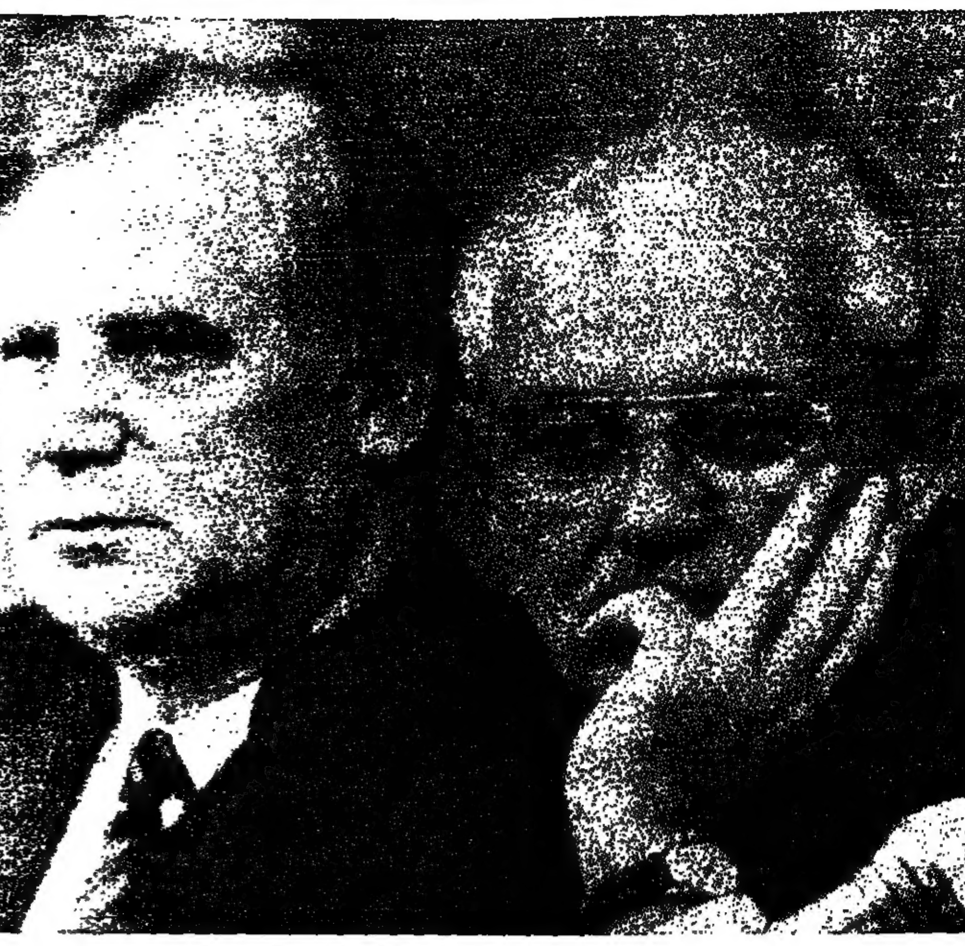
Behind the surplus lies a conscious decision to shift trade away from Comecon to the west and strongly rising receipts from hard currency tourism.

Unlike their Polish counterparts, the Hungarian authorities managed this radical shift in trade without a dramatic fall in output. Inflation remained high, at around 27 per cent on an annual basis in July, but overall GDP is not expected to fall more than 2 per cent this year, after a steep fall at the beginning of the year when soft currency exports to the Soviet Union were deliberately cut.

BASIC INDICATORS FOR CENTRAL AND EASTERN EUROPEAN COUNTRIES

	Soviet Union	Bulgaria	Czechoslovakia	German Democratic Republic	Hungary	Poland	Romania	OECD
General indicators								
Population (m, 1988)	286.4	9.0	15.6	16.6	10.6	38.0	23.0	824.8
GDP ($bn, 1988)	1,590.0	50.7	118.6	155.4	68.8	207.2	94.7	12,073.0
GDP per capita, $	5,552.0	5,633.0	7,603.0	9,361.0	6,491.0	5,453.0	4,117.0	14,637.0
Growth of GDP								
1971-80	3.1	2.8	2.8	2.8	2.6	3.6	5.3	3.3
1981-85	1.7	0.8	1.2	1.9	0.7	0.6	-0.1	2.5
1986-88	2.3	1.9	1.5	1.7	1.5	1.0	0.1	3.5
Living standards (1987)								
Cars per 1000 inhabitants	50.0	127.0	182.0	206.0	153.0	74.0	11.0	385.0
Telephones per 1000 inhabitants	124.0	248.0	246.0	233.0	152.0	122.0	111.0	542.0
Structural indicators								
Share of labour force in agriculture	21.7	19.5	12.1	10.2	18.4	28.2	28.5	8.0
Gross domestic investment/GDP	33.2	32.7	24.7	29.2	26.5	36.5	37.1	20.6
Share of private enterprise in NMP/GDP	2.5	8.9	3.1	3.5	14.6	14.7	2.5	70-80
Energy use per unit of output	2.6	2.2	1.9	1.6	1.5	1.9	2.7	1.0
% of workforce with secondary or higher education	27.3	n.a.	29.4	n.a.	33.8	28.9	n.a.	61.0
Trade indicators								
Total exports of goods, % of GDP	6.8	23.0	19.7	13.7	14.7	6.4	11.2	14.4
Manufactured goods exports as share of exports to non-socialist countries	53.1	59.3	72.4	77.3	79.8	63.4	50.6	81.8
Percentage change of share of OECD markets								
1978-89	-26.7	-18.5	-44.0	-25.2	-7.8	-32.3	-46.3	-
1986-89	-13.0	-19.9	0.9	-9.1	1.5	-23.5	-27.8	-

Source: OECD Economic Outlook



Prime Minister Nikolai Ryzhkov's reform plans do not have President Gorbachev's support

SOVIET UNION

Radical proposals gather momentum

AFTER five years of tumultuous political change, the Soviet economy is in perilous limbo. The Stalinist-style, centrally planned, command economy has failed, but an alternative market and service-orientated system remains to be created.

The economy has steadily worsened under Mr Gorbachev. His initial attempts at "reform" showed that he came to power unaware of the true depth of the economic crisis and ill-prepared by his progress through party ranks to comprehend that the political and economic crises of the Soviet system were inextricably linked.

He has learnt much on the job. But initially, like his mentor the late President Yuri Andropov, he believed that the economy could be put to rights if the workforce could be bullied or cajoled into working faster, stay sober on the job and be supplied with new machine tools from the west.

Instead, the State lost billions of roubles in revenue, adding to the inflationary budget deficit which has grown to around 10 per cent of GNP, while prohibition created a whole new criminal sub-class of bootleggers. Meanwhile, industry continued producing the same old, mainly military products but less efficiently as equipment aged and the transport system deteriorated against a background of rising labour unrest and increasing shortages. The service industries remained rudimentary or non-existent.

Arguably the only tangible economic achievements of the Gorbachev years to date have been by-products of a brilliantly successful foreign policy.

Major drains on the Soviet exchequer like the war in Afghanistan and support for despotic regimes throughout the Third World have been drastically cut. Billions of extra dollars should flow into Soviet coffers with the ending of disguised subsidies to eastern Europe and the conversion to hard currency trading at world market prices for vital commodities such as oil and gas.

Finally, after years when sheer inertia saw military output and exports continue at high and even growing levels, production has also started to drop in military factories. Resources are now becoming available either for export or re-deployment in the civilian sector. Much hangs on the efficiency with which former military plants are handed over to Soviet and foreign entrepreneurs for conversion to civilian production.

Perhaps most importantly, the last five years have seen the build-up of what is now a probably unstoppable momentum behind ever more radical proposals for creating the sort of market economy which is compatible with the political, social and cultural aspirations of a population freed at last from decades of fear and ignorance.

The emergence of new and radical economists has led to a slaughter of socialist sacred cows and bitter in-fighting between "conservatives" in the old planning apparatus and the

The economy has steadily worsened under Gorbachev

"marketeers".

As a result the powers of institutions like Gosplan, the Communist Party Politburo and the Central Committee secretariats have been reduced. New bodies like the Reform Commission of the Council of Ministers, the Congress of Peoples Deputies, the Supreme Soviet, the Presidency and the Presidential Council have seen their powers to formulate economic policies enhanced.

Mr Gorbachev, whose own economic knowledge is limited, has surrounded himself with bright, radical economists. But even so the economic initiative was wrested from him in early summer by Mr Boris Yeltsin, the newly-elected president of the increasingly assertive Russian Federation. The Government's own plans for a "regulated market economy", as formulated by Mr Nikolai Ryzhkov, the Prime Minister, were overtaken by events.

Anxious to limit competition between the Soviet authorities and the increasingly assertive republics, Mr Gorbachev agreed with Mr Yeltsin on August 1 to set up a joint commission on economic reform. In this way, Mr Yeltsin's plan for a 500-day crash programme formed the basis of future economic policy for the looser, more federative Soviet Union of the future.

The Yeltsin plan, originally drawn up for the Russian Federation alone, calls for legislation within the 100 days of the start of implementation in October to guarantee full private property rights to Soviet citizens and foreigners. Stage two, between 100 and 250 days, requires large scale privatisation of state assets coupled with a streamlining of the central bureaucracy through the merger or abolition of 23 central ministries. Stage 3, to be introduced between 250 and 400 days, calls for de-control of prices. The last 100 days will be devoted to an as yet vaguely identified "stabilisation programme".

Whether just changing the laws will in itself change the situation on the ground remains to be seen, although one of the pre-requisites of market-orientated reform and foreign investment is the establishment of a clear framework of known and enforceable laws. Another is creating the conditions for a convertible rouble, along the lines already successfully carried out by Poland.

The overriding priority of the Soviet Government is to create conditions for the re-integration of the Soviet economy into the wider world of international trade, production and investment. But, again, it remains to be seen whether the Soviet Union as it has existed since the civil war of the 1920s will continue for much longer as a unified economic entity with a single currency.

Increasingly assertive republican governments, especially the Baltic states and above all the Ukraine, are pressing for full independence, including their own currencies and banking systems, before re-negotiating, as sovereign powers, the details of a future confederal system to replace the Soviet Union as created by Lenin and set in concrete by Stalin.

The idea of one huge, unwieldy market of 290m potential consumers on which many western companies and institutions have based their assumptions looks increasingly unrealistic. Debate, both inside and outside the Soviet Union, is likely to focus increasingly on the likely economic and political consequences of this "Balkanisation".

Anthony Robinson

President of the Russian Federation Boris Yeltsin has seized the economic initiative

Ashley Ashwood

Martin Wolf assesses the effects of Poland's transition

Journey into terra incognita

THE SOLIDARITY Government in Poland, now in office for a year, is engaged in a task that deserves the label "Leninist". When Lenin seized power in the Soviet Union he initiated a revolution in the name of a class, the proletariat, that did not as yet exist. His "dictatorship of the proletariat" was, therefore, the dictatorship of a self-selected vanguard.

Now in Poland, a revolution – more precisely, a counter-revolution – is being attempted in the name of an as yet non-existent capitalist class. But the Polish Government rules by consent. It is there because of popular hatred for its Communist predecessor, not because the public shares (or fully understands) its liberal goals. It is an open question whether the people will tolerate a revolution that will not merely upset so many of their prejudices, but offers its pot of gold at the end of so long a rainbow.

Terry Kirk

Finance Minister and Deputy Prime Minister Leszek Balcerowicz's reforms have devalued and unified the exchange rate, stabilising it at 9,500 zloty to the dollar

The length of that rainbow is explained by the legacy the Government has inherited. What Polish industry produces few would freely buy; management is used to meeting the dictates of planners, rather than the demand of consumers; workers are unaccustomed to working; and, to add insult to all these injuries, the previous Government liberalised prices and wages in the summer of 1989, so precipitating hyper-inflation.

Outlines of the new Government's programme were introduced by Mr Leszek Balcerowicz, Finance Minister and Deputy Prime Minister, at the meetings of the IMF and World Bank a year ago. It had two parts: stabilisation and liberalisation, with the former viewed as a precondition for (and element in) the latter.

The stabilisation programme was finally introduced in the beginning of January 1990, following agreement with the IMF. It had the following main elements:

- the budget deficit was to be reduced to 1 per cent of gross domestic product (from a deficit of more than 8 per cent of gdp in the previous year) by means of a sharp cut in subsidies and investment spending;
- tight control was to be placed on money and credit, through a sharp increase in real interest rates;
- the exchange rate was to be devalued, unified, made convertible for residents on current account, and stabilised at 9,500 zloty to the dollar;
- nominal wage growth was to be limited through the reinforcement of penal taxation on increases in the wage bill above pre-determined norms;
- prices were to be liberalised, except in certain sectors, where increases would be imposed; and
- import controls were to be eliminated, allowing free import of most goods over a 20 per cent tariff, with a few exemptions, along with surcharges on luxuries.

Judged by its main goals, the programme has been a success. The shortages have disappeared, along with the queues that were their principal symptom. The Government budget has even been in surplus. After a surge of corrective price rises in January, inflation was down to 3.4 per cent in June. But inflation in June was still running at an annual rate of 50 per cent, a level that is not only too high, but from which it can easily accelerate once more.

Despite these successes, the response of the economy has confirmed the fears of the pessimists. January saw a decline in officially recorded output in the state sector, by almost 32 per cent, with real wages showing a similar decline. Once down, the economy has stayed down, with real output in the first half 29 per cent below the corresponding level of the previous year and measured real incomes down 31 per cent. In short, the managers of the more than 7,000 state enterprises have gone into hibernation.

The decline in output and real income may not be as significant as it seems. Much of Polish industrial output was of "bads" rather than goods. Furthermore, the real wages supposedly earned in previous years were largely notional, partly because goods in the price index were unavailable at official prices, other than by queuing or political influence.

The torpid response has even had its good side. For example, a $2.1bn hard currency trade surplus in the first half of the year provides a cushion for Poland's attempt to cope with the current shock of higher oil prices. Equally, the tendency to put employees on leave rather than dismiss them has limited increase in open unemployment, which reached only 642,000 by mid-July, 4 per cent of the labour force.

None the less, the economy must wake from hibernation. Competition is provided by trade liberalisation. But the creation of a more entrepreneurial attitude necessitates privatisation. People must be allowed to get rich from the more effective use of dormant public assets.

The Government began to turn to this task only this summer, following passage of the enabling legislation. After belated recognition that the British approach to privatisation is inapplicable to Polish circumstances, Mr Balcerowicz has recently announced an accelerated programme of privatisation. The aim is to transform the ownership or control of 50 per cent of Polish industry by the end of next year. The chosen means are a mixture of sales, distribution of shares to the population (via a voucher scheme) and "commercialisation" through transfer of management to banks, investment and insurance funds.

Such restructuring represents a journey into *terra incognita*. Stabilisation is a politically intractable, but technically well defined problem, with well known solutions. The comprehensive restructuring of a Soviet-style economy is quite another matter. The destination may be clear enough; the feasibility of any particular route is not. Unfortunately, the path has been made more difficult by the economic and political collapse of Poland's most important trading partner, the Soviet Union, by the dead weight of more than $40bn in external debt and, last but not least, by Iraq's grab for Kuwait.

This year Soviet oil supplies are 30 per cent below promised levels. Now Poland has to grapple with the virtual doubling in the world price of oil. In addition, the Soviet Union plans to move to world prices and hard currency payment on its deliveries, a shift that is expected to cost Poland $1.5bn. In effect, Poland will experience the first oil shock only now, a shock that is magnified by the energy-intensity of output, which is roughly double that in OECD countries.

Poland will need far more help than it has yet received, including a radical writing down of its external debt. Even with such help, opposition of both people and intellectuals to the economic counter-revolution may yet doom it to failure. The Polish people could find themselves mired in Latin American frustration, with political chaos preventing the birth of a functioning economy and economic chaos, in turn, embittering political life. The only alternative is boldness and persistence in the Government, along with both more luck and more external assistance than this hapless country has obtained so far.

هكذا من الاصل

The impact of the Gulf crisis on the UK economy will be muted, but inflation has yet to peak, writes **Rachel Johnson**

Out of the Lawson boom, into the Major correction

"THE objectives of the Government's economic policy are to defeat inflation and to promote output growth and the creation of jobs." – The first sentence of the Financial Statement and Budget Report, delivered by Mr John Major, the UK Chancellor, in March 1990.

At first blush, the Government has failed to meet these three objectives for the UK economy and many more. And since the Chancellor spoke, the Government has been distanced from its primary objective – lower inflation – by the Iraqi invasion of Kuwait and the jacking up of oil prices.

The impact on the UK economy, compared to those of oil-importing countries, is muted. The upwards drift of the sterling oil price will worsen the poor UK inflation outlook; but if sterling continues its act as a petro-currency, then UK monetary conditions automatically tighten as oil prices rise without the need for tax or interest rate increases.

The Government has stuck to a four-year plan

However the fundamentals of the pre-Gulf economy are still underpinning today's outlook. In spite of the stranglehold of interest rates held at 15 per cent for almost a year, inflation has yet to peak and is currently rising at an annual rate of 10.6 per cent. Output growth is modest, projected to average about 2 per cent over this year; and unemployment has started to rise again, casting a doleful shadow over the Government's economic strategy.

But this does not mean that Mr Major has got it all wrong, and City economists are prepared to admit that the economy could at last be moving in the direction the Chancellor wants in time for a general election in late 1991 (or 1992).

After all, this time last year the Chancellor was Mr Nigel Lawson, whose policies must have been hellish for his successor to unscramble. Put in a didactic fashion by Mr Bill Martin, economist at UBS Phillips and Drew: "As every schoolboy knows, Mr Lawson arranged a modest pre-election expansion then became addicted to growth."

This led to a phenomenal private-sector generated rise in domestic demand and a "major growth accident." UK demand started rising almost twice as fast as world demand. Mr Lawson's task was made no easier by the failure of the GDP series properly to register this surge in growth. Confident that demand was in check, Mr Lawson released more consumer spending power with tax-cutting Budgets, now acknowledged to have been a mistake.

It also led to an inflation accident. Now UK inflation is about twice as high as the average for countries already in the Exchange Rate Mechanism. And no schoolboy could forget the balance of payments accident. Excessive demand sucked in an enormous quantity of imports and blew a huge hole in the current account – £19bn in deficit in 1989.

Mr Major, as the inheritor of the "Lawson legacy," has had to be very stern in order to correct severe imbalances in the UK economy, which was already maladjusted by the housing market.

The Government has stuck doggedly to a four-year economic plan, known as the medium-term financial strategy, in its attempts to reduce inflation; it accepts that in the short-term, tight monetary policies, mercilessly administered, will bring the economy to its knees. This means that the UK will skirt recession before it recovers from the pancake growth levels of this year and most of next.

The latest Confederation of British Industry forecast predicts lower GDP growth in 1991 than in 1990, a prognosis gathering credibility among the forecasting fraternity. Goldman Sachs has also shaved its growth forecasts for 1990 and 1991, as a consequence of higher oil prices and stronger sterling. Consumer expenditure is set to rise by 1 per cent next year after 3 per cent in 1991 (it has been fuelled by an expansion in real disposable income) and fixed investment could drop after being flat this year.

Additionally, empirical data confirms that the economy is out well out of the Lawson boom and well into the Major correction.

One by one, the indicators are showing that the Government's tight monetary strategy is getting the desired dividend in the form of a pronounced slowdown, and that it could gather momentum. In the third quarter of 1990, most appeared to be giving a consistent picture of the slowing economy.

Retail sales are flat on an underlying basis; credit growth has fallen from the heights of the last decade, when the willingness of the individual to take on debt was seemingly unlimited; monetary growth, as shown by the narrow measure M0 (basically notes and coins in circulation) has finally slipped inside the Treasury's target range for its expansion of 1-5 per cent. Mr Tim Congdon, the monetarist economist at Gerrard and National, says that broad money growth, too, is heading back to the 11-13 per cent band which was consistent between 1982 and 1986 with 5 per cent inflation.

All this renews pressure on the Government to cut base rates. But Mr Major, at the time of writing, has made his views on both any potential cuts and the other burning issue, the timing of sterling's entry into the Exchange Rate Mechanism of the European Monetary System, crystal-clear.

ERM entry seems remote while UK inflation is high

He will cut base rates when "it is safe to do so" – and Britain will join the ERM when inflation is firmly on a downwards path to meet the European average.

With inflation yet to peak, Mr Major is sticking closely to avowed policies. ERM entry seems remote while UK inflation is high, and so are cuts in interest rates. But as soon as inflation peaks, the markets will be looking for a cut in base rates so the Government can seek to reduce mortgage rates ahead of the next election. By then, Mr Major will have satisfied himself that interest rates can safely follow the RPI, a lagging indicator, down to more comfortable levels.

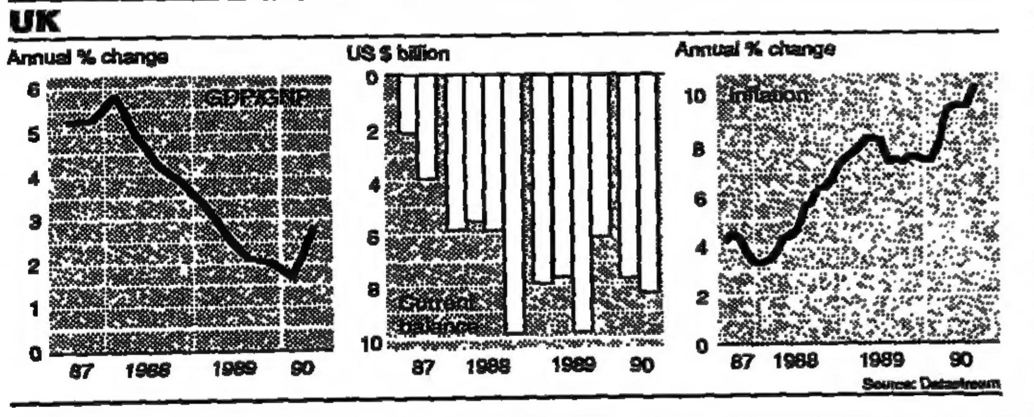
UK Chancellor of the Exchequer John Major has had to be very stern in order to correct severe imbalances in the UK economy; the tax cutting budgets of his predecessor, Nigel Lawson (right) are generally seen as a mistake

FORECASTS FOR THE UK ECONOMY

	1990	1991
Gross Domestic Product*	1.4	2.0
Consumer spending*	2.1	1.8
Manufacturing output*	1.0	1.8
Fixed investment*	-1.1	0.2
Retail price inflation†	9.3	5.4
Unemployment (millions)	1.7	1.8
Balance of payments current account £bn	-15.7	-12.5
PSBR £bn	-4.7	-2.6
Interest rates, %‡	14.6	11.8
Exports volume*	8.1	5.0
Imports volume*	3.3	3.6

*% change over 12 months. †Year to fourth quarter ‡Three month interbank.
Source: FT Survey of Forecasts, August 1990.

UK



Adam Smith: revered, quoted, but largely unread

Disputed legacy of the original free marketeer

THE COINCIDENCE of the collapse of the totalitarian economies of eastern Europe with the bicentenary of the death of Adam Smith propelled the author of the 900-page classic, The Wealth of Nations, to the top of the economic pops this year.

The Wall Street Journal remarked in an editorial that somebody could have made a lot of money selling a reversible tie with Karl Marx on one side and Adam Smith on the other. Now both Mr Mikhail Gorbachev and Mr Boris Yeltsin have embraced Smith's founding principle – the free market – Smith looks set to ride high in the charts for some time to come.

The same dour aspect has, in fact, found its way onto neckwear already – of Washington disciples at the time of Ronald Reagan's move to the White House in 1981. Adam Smith ties, like his ideas, have been flavour of the decade.

In the bicentenary of his death, the economics/history profession has been busy both confirming the truths and finding the flaws in the arguments of one of economics' most revered, quoted, yet unread texts.

Professor Norman Stone extolled him as the founder of today's market economy and the stoutest spokesman for free trade, honest finance and the state's doing properly what the state has to do.

But at one of the two commemorative conferences held in Edinburgh this year, fault-finding in the Wealth of Nations appeared to be as easy for the septuagarian Nobel laureates in economics as path-breaking had been in their chosen fields.

Professor Maurice Allais, a Frenchman, said Smith borrowed too freely from the ideas of other economists – French ones, of course – to be called the father of political economy.

And he had only one idea: that the free decentralised action of economic agents brings advantage. Smith believed in competition and minimum state interference, combining to form the big idea of the invisible hand of the market leading people to generate gains for society as a whole as well as themselves.

Beyond this, according to the American economist Mr James Tobin, Smith's views were not really an endorsement of capitalism. He said: "Adam Smith is not responsible for excesses committed in his name." He opposed protectionism, despised poll taxes and was suspicious of businessmen conspiring against the public.

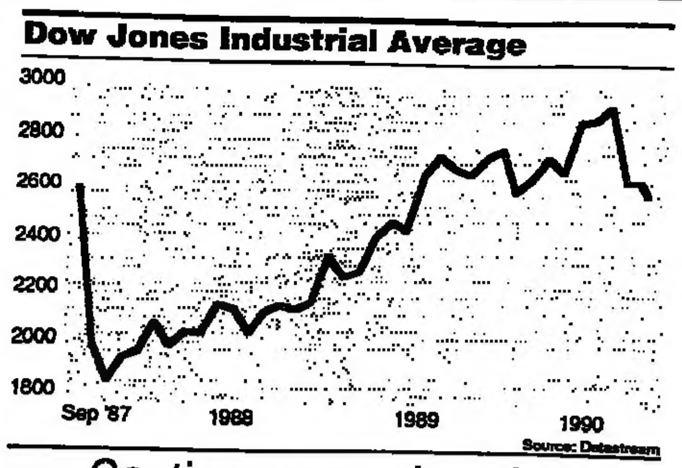
So while the public is the last to benefit from a round of oil price rises, Adam Smith would doubtless have relished the mechanism which imposed the rises on the energy-needy public.

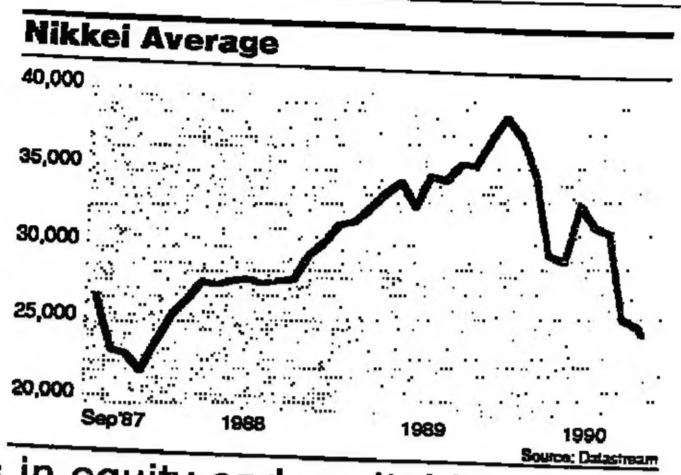
And he would have snatched the laurels from the brows of the economics Nobel prizewinners for their cheeky treatment of his majestic work.

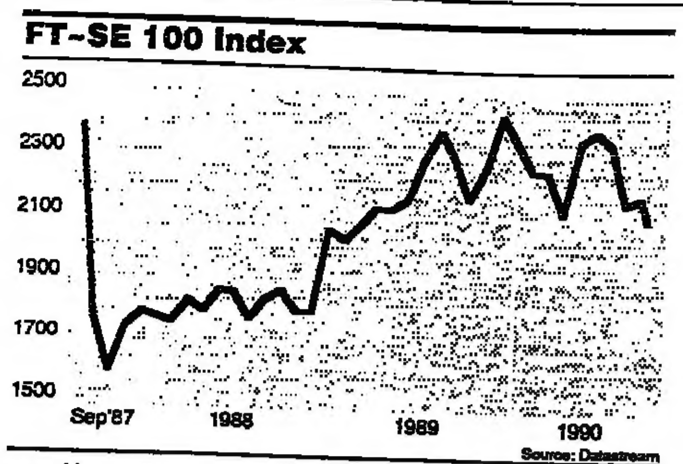
When Smith died 200 years ago, economics was in a glorious state, and he managed to explain the economic structure with the homely examples of the Bible. Manufacturing was illustrated by tales of pins and coats, not international comparisons of unit wage costs.

So he can rest in his grave in Edinburgh's Canon Kirk in the sound knowledge that his perception of economics was eloquent and enriching, and that the science only became dismal after he died.

Rachel Johnson







Caution means less business in equity and capital instrument trading, writes **Daniel Green**

Markets paralysed by uncertainty

UNCERTAINTY paralyses investors. Iraq's invasion of Kuwait is the latest addition to uncertainty for the world's financial markets this year.

It has had two consequences. First, the psychological shock of the unexpected; second, the realisation that inflation would rise and growth slow. The former was more emphatic, having followed a period of international reconciliation, but the latter has come to dominate sentiment.

Economists had, in any case, been making their forecasts less optimistic. At the start of the year analysts made 12 month estimates for 3,000 on the FT SE-100 index, 3,500 on the Dow Jones, Japanese inflation of 2.1 per cent, ten year German bonds yielding 6.8 per cent and for a dollar worth 1.7 D-Mark and £1.50. All of these had been looking increasingly unlikely by mid-year.

Now that events in the Gulf have given index trends an extra twist, of unpredictable size and in the wrong direction, markets will make no false moves until the smoke has cleared.

That caution means even less business in equity and capital instrument trading. London, for example, has seen its lowest share trading volumes since the 'Big Bang' deregulation of 1986. This is no sea change, however. Investment institutions have become ever more safety-minded and short-termist in the wake of the crash of 1987, the mini-crash of 1989, the rising cost of German unification, the return of inflation to Japan and the apparent inabilities of the US and UK economies to shed their industrial and deficit shortcomings.

Risk is out, although the effects of a switch to safety vary between markets. Government bonds are favoured over their corporate counterparts. The logical consequence – a rising yield gap between, say, Eurobonds on the one hand and gilts on the other – has only been realised to a certain extent. The rate of new Eurobond issuance has fallen with demand, while West Germany's recognition that taxes alone will not pay for the reconstruction of the East has kept Government bond markets supplied. Last month's auction of DM9bn of unity bonds was not a success, but analysts believe unity bonds will account for more than half next year's DM60bn plus injection of new German Government bonds.

Yields have had to rise to attract investors. Yield curves have become more positive as inflationary and political risks weigh on the distant future. Holders of long-dated bonds have switched to the short end and those already there have moved into cash, everybody's flexible friend. Cash looks safe because governments and central banks are willing to trade growth for a currency's value by raising interest rates.

If inflation makes bonds unpopular, then slowing growth makes shares downright dangerous.

In Japan, where equities have suffered a slow motion crash since January, the discount rate and inflation have trebled over two years. The labour market is tight and land prices are still strong. Share trading is light and markets fear a recession: if land follows equities, the fall in net wealth might prompt the traditional Japanese response of an increase in savings. This would hold back demand at a time of industry's growing reliance on home markets.

Outside equities, Japanese markets remain popular. Gulf tension helped the yen, after an initial fall on conventional dollar-as-safe-haven wisdom. Japan imports almost all its oil, but consumes less as a percentage of GNP than most other industrialised countries. Japan's challenges look manageable, especially to Japanese institutions which have been repatriating funds from foreign markets.

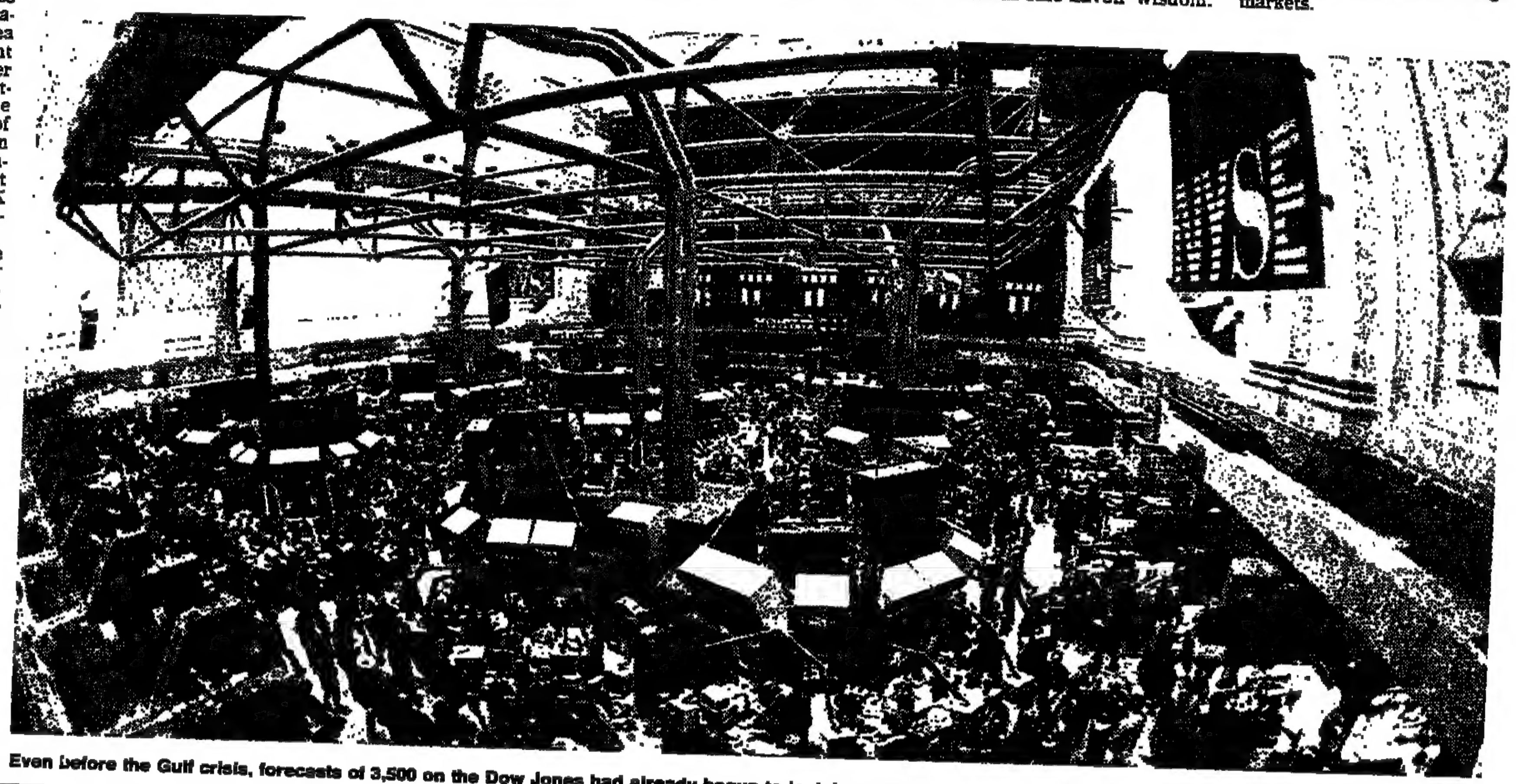
Investors take a different view of the US. The Reagan decade was a feast of risk-taking, typified by the junk bond, which has turned into a serious case of indigestion. The collapse of Drexel Burnham Lambert in February convinced the remaining revellers that they had taken poison. The fate of Drexel and savings and loan associations has helped make risk aversion the priority for banks.

As even traditionally safe investment vehicles begin to look risky, banks have become more cautious about to whom they lend. Inflation increases perceived risks at the longer end of the market and qualification criteria for business loans are stiffening. The reluctance to lend is likely to make it harder to reinvigorate the economy even if monetary policy is eased, a point argued by Federal Reserve chairman Mr Alan Greenspan in July and again earlier this month. Against that, if real interest rates stay high, then weaker G7 economies such as the US and the UK will continue towards recession. Either way, business will find it hard and expensive to borrow.

For some markets, however, Britain is in a peculiar position. They see the Exchange Rate Mechanism of the European Monetary System as a haven of relative certainty. The rise in the price of oil could also help trade and budget balances and, through its underpinning of sterling, inflation too.

But while sterling surprises even the bulls of the currency, the equity market remains unconvinced. Analysts who argued that the weight of institutional money would push shares higher are still waiting to be proved right. In the absence of profitable business, some of the weaker equity market players, such as Citicorp Scrimgeour Vickers and Kitcat & Aitken, owned by Royal Bank of Canada, withdrew from the stock market this year. More will follow.

There is some thought of an end of year rally as institutions adjust their cash weightings before the start of the new year: City analysts are still forecasting 2,500 on the FT SE-100 index. On the other hand, the inclination in most financial centres in as the year has passed has been to batten down the hatches. There may be technical recoveries before Christmas and more fundamentally based ones next year. But it is hard to find investors prepared to gamble heavily on either.



Even before the Gulf crisis, forecasts of 3,500 on the Dow Jones had already begun to look increasingly unlikely

Glyn Genin